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ABSTRACT

The need for decent, affordable housing has never been more urgent. The nature of housing and the way housing is financed require a coherent and sensitive set of public policies if Americans are to have adequate housing. This document, prepared for the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance, and Urban Affairs, compiles recommendations from various interested organizations and individuals for a new national housing policy. Part One comprises recommendations from national organizations. Part Two comprises recommendations from other organizations. Part Three comprises recommendations from individuals. A bibliography is included. (BJV)

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100th Congress
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A NEW NATIONAL HOUSING POLICY

RECOMMENDATIONS OF ORGANIZATIONS AND INDIVIDUALS CONCERNED ABOUT AFFORDABLE HOUSING IN AMERICA

PRINTED FOR THE USE

OF THE

COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS
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AND

COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

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United States Senate
SUBCOMMITTEE ON HOUSING
AND URBAN AFFAIRS
WASHINGTON, DC 20510

October 9, 1987

Hon. William Proxmire
Chairman
Committee on Banking, Housing, and Urban Affairs
Dirksen Senate Office Building, Washington, DC.

Dear Mr. Chairman:

We submit this compilation of recommendations from various interested sources for a new national housing policy.

On August 12, 1987, we invited a wide variety of organizations and individuals concerned about housing to recommend "building blocks" or components of a comprehensive bill. That invitation elicited a remarkable, nationwide process of consultation, producing many exciting ideas.

We recommend that the committee approve the printing of this compilation as a public document for distribution to those interested in housing policy.

We believe the need for decent, affordable housing has never been more urgent. Young families find the dream of home ownership drifting beyond reach. Too many poor families are limited to unfit housing at high rents. For the first time in memory, rising numbers of homeless families are on the streets of America.

It is time to begin moving housing back to the place it deserves on the list of national priorities. The nature of housing and the way housing is financed require a coherent and sensitive set of public policies if Americans are to have adequate housing.

Such an approach will require a fresh, new framework for housing policy -- one that will meet the country's needs in the next decade. We expect to introduce major housing legislation early next year to establish that framework. The bill must have both a manageable number of objectives eliciting wide support and a set of clear themes appropriate to current conditions.

Development of that legislation will require an extraordinary, broad-based, and bipartisan effort. We are very encouraged by the favorable response already received from leading individuals and organizations in the field.

Two independent efforts which should be particularly helpful are being conducted at this time. MIT's Department of Urban Studies and Planning is forming a network of housing professionals from around the country. Twenty major papers have been commissioned to assess current housing conditions and the lessons of recent years. These papers will be presented and reviewed in conferences to be held in the Capitol and will be published in book form.

In addition, James Rouse and David Maxwell are forming a Housing Policy Task Force of experienced practitioners in housing development and related fields. The task force will meet for a series of intensive sessions with the goal of recommending strategies for making decent, affordable housing available to all Americans.

For its part, the Senate Housing Subcommittee will be working to focus attention on housing policy and to refine ideas into appropriate legislation. The Senate and House Housing Subcommittees intend to hold extensive joint hearings next year, both in Washington and in various regions of the country. We will press for passage of a bill in this Congress, and look for implementation early in the next Administration.

The climate is right for a responsible and effective housing policy. We hope this compilation will serve as a useful guide in making that policy a reality.

We thank the many who contributed to this effort, and we look forward to working with you on housing legislation in the coming months.

Sincerely,

Alan Cranston, Chairman

Alfonse D'Amato, Ranking Member.

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October 9, 1987

Honorable William Proxmire
Chairman
Committee on Banking, Housing, and Urban Affairs
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I join with the distinguished Chairman of the Senate Housing Subcommittee on Housing and Urban Affairs, Alan Cranston, and its Ranking Member, Alfonse D'Amato, in submitting a compilation of suggestions by various housing groups on what they believe would be the major recommendations on a new and far-reaching housing bill. I commend the work of the Senate Subcommittee Chairman and the Senate Housing Subcommittee in calling on many interested groups to assist in setting new directions for our Nation's housing policy.

The housing needs of this Nation have been ignored for the past six years, and we are seeing the results of the failure to address housing needs in the increasing homelessness and in the prospects of losing hundreds of thousands of assisted housing units with no federal resources to continue to provide the necessary subsidies to keep the housing for low and moderate income people.

While I do not endorse all of the recommendations that will be contained in these recommendations, I believe that they will initiate the legislative response to begin meeting the housing needs of our Nation.

Sincerely,

Henry B. Gonzalez
Chairman

HBG:GM/eh

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A A H A

PARTNERSHIP IN CREATING COMMUNITIES THAT CARE:

MEETING THE HOUSING NEEDS OF AGING AMERICANS

Recommendations for the Reform of Federal Housing Policy by

The American Association of Homes for the Aging

Submitted to the

Subcommittee on Housing and Urban Affairs

of the

Senate Committee on Banking, Housing and Urban Affairs

October 5, 1987

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ACKNOWLEDGEMENTS

Early in August, AAHA (along with other organizations involved in housing issues) received an invitation from Senators Cranston (D-CA) and D'Amato (R-NY) of the Subcommittee on Housing and Urban Development to submit a position paper on the future direction of federal housing policy. The Senators expressed concern over the future of housing programs in light of major budget cuts in recent years and predictions of substantial shortfalls in low- and moderate-income housing in the near future. AAHA was asked to submit by October 5th a broad-reaching analysis of the housing situation with innovative solutions to address tomorrow's housing problems.

This request coincided with increasing expressions of concern by AAHA members about federal housing programs. After consultations between President Edgar G. Kilby and the Reverend J. W. Carroll, Chairman of the Housing and Assisted Living Committee, Mr. Thomas W. Slemmer (*) was asked to chair an Elderly Housing Reform Study Group to formulate AAHA's position for the Senate Housing Subcommittee. Members of the study group included:

The Rev. J. W. Carroll (*)
Mr. Pat Conroy
The Rev. Norman Crook
Mr. John Hood (*)
Mr. William C. Kelly, Jr.
Ms. Kay King
Mr. Timothy Martin
Ms. Diana L. McIver
Mr. Thomas Perkins (*)
Ms. Martha Sachs
Mr. James P. Shaner
Ms. Nancy Spring

(*) Indicates that these individuals are also members of the Housing and Assisted Living Committee.

The Elderly Housing Reform Study Group met at AAHA's national offices in Washington, D.C. on September 17-18, 1987 for two intensive days of discussions on AAHA's position paper. Members of the study group came (most at their own expense) with prepared issue briefs on various topics of concern to AAHA members. Information from those papers and discussions was combined with concerns expressed by AAHA members directly to the national staff and through a recent national survey of members to put together AAHA's position paper. A draft of this paper was sent for comments and suggestions to members of the study group and to members of the Housing and Assisted Living Committee who were not members of the study group, including:

Ms. Patricia Bloomer
Mr. John Crocker
Ms. Jane Hoover
The Rev. Robert Inhoff
Mr. Edgar Kilby
Ms. Juliet Rodriguez
Mr. David Schreiner

Staff members involved in the preparation of this position paper included: Dr. Donald L. Redfoot, a consultant who drafted the paper; Mr. Michael Rodgers, Deputy Executive Vice President for Policy; Mr. Larry McNickle, Director of Housing; and Ms. Mary Webb, Housing Analyst.

Members of the study group and staff invite further comments and suggestions from interested AAHA members. Please direct comments to Michael Rodgers or Larry McNickle at AAHA's national offices, (202) 296-5960.

PARTNERSHIP IN CREATING COMMUNITIES THAT CARE:
MEETING THE HOUSING NEEDS OF AGING AMERICANS

Recommendations for the Reform of Federal Housing Policy by
The American Association of Homes for the Aging

October 5, 1987

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PARTNERSHIP IN CREATING COMMUNITIES THAT CARE:

MEETING THE HOUSING NEEDS OF AGING AMERICANS

EXECUTIVE SUMMARY

This year, the 50th anniversary of federal involvement in the provision of housing offers an opportunity to review past accomplishments as well as to make a renewed commitment to address the remaining housing needs of all Americans. Despite significant successes over the past half century, a growing sense of crisis clouds the future of many federal housing programs. Homelessness is a growing national problem, affecting families of all ages. The existing federally assisted housing stock is deteriorating and in need of modernization due to age and neglect. Waiting lists at many assisted housing sites have lengthened into years due to increased demand. Meanwhile a crisis is predicted in the next few years as the number of assisted units is drastically reduced due to years of federal budget cuts, expiring contracts, and prepayments of subsidized loans.

The American Association of Homes for the Aging (AAHA) congratulates the Subcommitttee on Housing and Urban Affairs for its bipartisan leadership in looking ahead to the future housing needs of the nation. As a representative of the nation's nonprofit providers of housing and services to the elderly, AHAA looks forward to a continuing dialogue with the Subcommittee and with other groups as we try to forge a comprehensive policy addressing the needs of Americans of all ages, incomes, disabilities, and family statuses.

Federal leadership is urgently needed which is committed to addressing the housing needs of the nation and guided by a clear and comprehensive national housing policy, is urgently needed. A strong national policy must establish the priority of housing that is **available, affordable, and suitable** to Americans of all ages, income levels, family statuses, and disability levels.

Of particular concern to AAHA is that the special housing needs of older Americans receive deserved attention in this national housing policy. The numbers of elderly are increasing at a rate of over half a million per year creating special demands that will continue to be a major factor in planning future housing and community development policy. The elderly currently occupy nearly half of federally assisted housing units. As residents of assisted housing age in place, the need to develop effective linkages between housing and social services will become increasingly urgent if we are to promote independent living by older people in the community. **Maximizing the ability to live with dignity and independence should be the cornerstone of federal housing policy. For the aging, that goal will require developing a range of housing and support service options to meet the needs experienced by individuals as** they age. Federal housing policy must expand beyond the narrow understanding of housing as "bricks and mortar" to include the special needs of residents. This understanding will require fundamental changes in existing housing policy to achieve the basic values and national goals of individual independence and community interdependence.

A strong national policy linking housing to a range of support service options for the elderly is not only more humanitarian, but ultimately more cost-effective. With Medicaid expenditures for nursing home care exceeding $18 billion per year, strong economic pressures are forcing the exploration of cost-effective alternatives to institutional long-term care. The most reliable estimates indicate that at least one quarter of the 1.5 million people currently residing in nursing homes could live in the community if appropriate housing and support services were available. Enormous potential savings can be made in program costs while more effectively serving the human needs of older people. Programs like the Congregate Housing Services Program (CHSP) have already demonstrated impressive cost-effective approaches to linking essential support services to housing assistance in order to prevent unnecessary institutionalization. These innovative alternative housing arrangements should be cultivated and expanded.

Financing the housing needs of older people will require a federal housing policy which promotes an effective partnership among public, private, and nonprofit sectors. The federal government has at its disposal a range of resources and approaches that could play a significant role in fostering this partnership, including: grants and loans, mortgage insurance, and tax incentives.

Nonprofit organizations have a special role to play in addressing the housing and service needs of older people both because of their experience and their mission to service older people. The long-term involvement of nonprofit organizations is built on vast experience in developing innovative approaches to the changing needs of succeeding generations of older people. In contrast to the departmental fragmentation of housing and social services that characterizes most federal programs, nonprofit providers have been committed to addressing the physical, social, emotional, and spiritual needs of the whole person. This comprehensive approach to providing housing and support services appropriate to the needs of the individual is more suited to addressing the needs of older people and should be recognized and supported by federal housing policy.

A number of approaches could be used to strengthen the role of nonprofit organizations in partnership with the public and private sectors. The Section 202 program should be expanded and restructured as a forgivable, long-term loan that would allow greater latitude in income targeting. Greater flexibility on tax credits and tax exempt bonds could provide a valuable stimulus to for-profit investors interested in partnerships with nonprofit organizations.

Finally, addressing the future housing needs of the nation will require more effective management from the Department of Housing and Urban Development (HUD). Cost-effective and efficient management has ironically often been thwarted by penny wise and pound foolish cost containment measures that have emphasized short-term savings while building in long-term costs. For example, HUD-mandated cuts in building materials and safety equipment have necessitated expensive maintenance and retrofitting in later years. Lack of community spaces and requirements for efficiency units have tied the hands of project managers and required expensive adaptations of buildings as residents age in place. Pressures to cut costs when coupled with decentralization of decision-making have created a capricious system of HUD intervention in management decisions and resulted in counterproductive costs and needless delays in project developments.

The American Association of Homes for the Aging (AAHA) was founded in 1961 to provide leadership for nonprofit providers of housing and long-term care to the nation's elderly. AAHA's 3,200 members, mostly religious, labor, and fraternal organizations, are united by the goal of promoting "communities that care" for older Americans of all races, creeds, and national origins. Representing some of the nation's longest established providers of housing and services to the elderly, AAHA's members continue to serve more than half a million people on a regular basis.

Based on the wealth of experience represented by our membership and looking forward to the future, AAHA would offer four basic goals to guide housing reforms — especially as they affect older Americans. Each general goal is followed by a discussion of the existing situation and specific proposals. These goals and proposals are presented in the spirit of furthering an effective partnership among public, private, and nonprofit sectors — a partnership to which AAHA is committed as crucial to meeting the challenge of promoting communities that care for tomorrow's older citizens.

SUMMARY OF GOALS AND SPECIFIC RECOMMENDATIONS

GOAL #1 — The federal government should renew its commitment to a comprehensive national housing policy that recognizes the special needs of older persons. The goals of a national housing policy should include:

— Availability to all Americans;
— Affordability for individuals and families at all income levels; and
— Suitability for all ages, disability levels, and family statuses.

SPECIFIC RECOMMENDATIONS:

1. The federal government should reassert its leadership role in the provision of low- and moderate-income housing by substantially increasing the number of units of assisted housing through programs run by the Department of Housing and Urban Development (HUD) and the Farmer's Home Administration (FmHA).

2. In recognition of the special housing and service needs of elderly residents of federally assisted housing, the position of Assistant Secretary for Elderly Housing should be established within the Department of Housing and Urban Development (HUD). The responsibilities of the Assistant Secretary for Elderly Housing would include:

— **Administration** of the Section 202 program, the Congregate Housing Services Program (CHSP) and other HUD programs targeted to the special shelter needs of the elderly.

— **Advocacy** with HUD and other federal executive departments, other levels of government, and the private sector for the special shelter needs of the elderly.

— **Coordination** of social services to elderly residents of assisted housing with other federal departments (especially the Department of Health and Human Services) and other levels of government.

— **Oversight** of HUD regional and local offices to assure that decision-makers at those levels have appropriate training in the special problems associated with elderly housing. This oversight responsibility would also include an appeals process to resolve problems in elderly housing.

3. Federally assisted housing programs for the elderly should strive to meet the target of creating new units for 1% of the elderly population per year; at least 10% of these units should be provided through the Section 202 program.

4. Short and long range actions are critically needed to insure that older tenants are not displaced through prepayment of existing contract nor that rents become unaffordable through the expiration of existing rent subsidy program. As part of any reform of these existing program, there is a need for continuity of assistant for existing older tenants, such as a Transitional Rent

Subsidy Program which protects existing tenants.

5. Community development and housing programs should promote strong neighborhoods without displacing older residents through the adaptive reuse of existing community structures as an efficient means to meeting the needs of aging individuals and aging communities.

GOAL #2 — Housing policy for the elderly should promote independent living among older people by providing options in living arrangements to meet the range of needs for housing and support services.

SPECIFIC RECOMMENDATIONS:

1. Meeting the future needs of the elderly will require effective linkages across federal departmental lines to coordinate housing, social services, and medical care. Greater coordination between HUD and the Department of Health and Human Services (HHS) as well as greater coordination with state and local levels of government would be promoted by a HUD Assistant Secretary for Elderly Housing. Of particular importance are increased linkage between the aging network of the Administration on Aging (AOA) with elderly housing projects, including a priority for nutrition sites located in or near elderly housing projects.

2. In recognitions of the distinct needs of the elderly and handicapped, separate housing and supportive service programs should be developed for each group.

3. Local sponsors of elderly housing — public, private, and nonprofit — should retain maximum flexibility to develop different approaches to linking housing and support services consistent with their own philosophies, the needs and desires of their residents, and available resources. Some sponsors may wish to put priority on providing independent housing, while other sponsors may chose to be entirely devoted to congregate housing targeted to the very frail. Similarly, some sites may wish to employ professional staff to provide services, while other sites may wish to use professional staff primarily as a catalyst to promote the development of voluntary peer support networks. There are successful models for each of these approaches, and sponsors should have the flexibility, guidance, and resources to create different types of communities incorporating different mixes of housing and services.

4. Innovative housing and service arrangements that provide alternatives to nursing home care should be strengthened and extended. Specifically:

— The highly successful Congregate Housing Services Program (CHSP) should be permanently authorized and significantly expanded to serve low- and moderate-income elderly and handicapped in a variety of settings.
— New legislation should provide the necessary incentives to pursue a wide range of housing options for the elderly, including: home sharing; elderly cottage housing opportunity (ECHO) units; equity-based congregate housing; and continuing care retirement communities (CCRC's).

GOAL #3 — A range of federal financing options for housing and services should foster a partnership involving all levels of government, private sector investors and developers, and nonprofit sponsors.

SPECIFIC RECOMMENDATIONS:

1. Create the following subtitles under the Section 202 program to provide different financing options:

    I. A National Elderly Housing Trust Fund to administer a revolving account of funds to finance federal elderly housing programs.
    II. A long term, low interest loan connected to rental subsidies (the current system).
    III. A forgivable loan program coupled rental assistance or operating subsidies where necessary. The construction loan would be forgiven over a forty year period in proportion to the relative number of residents meeting age, income, and disability targets. At least 20% of units would be reserved for very-low-income residents or 40% for low-income residents. Otherwise, housing sponsors should retain targeting flexibility to encourage the income integration of elderly residents.
    IV. Grants or loans for modernization and rehabilitation of older Section 202 and Section 236 sites and for adaptation of existing sites to needs precipitated by the aging in place of residents, including the provision of nearby facilities to meet supportive service needs.

2. Each of the above financing options should be available to the following specific programs to be administered under Section 202:

    A. Nonelderly handicapped housing.
    B. Elderly housing.
    C. Rural housing for the elderly. This program would be created by transferring the FmHA Section 515 program for elderly housing to HUD with appropriate funding transfers.

3. Increase the tax incentives and decrease tax disincentives for investment in low- and moderate-income housing as well as increase the flexibility of tax exempt bonds to allow the growth of partnerships between nonprofit providers and for-profit investors.

4. Expand the proposed home equity demonstration program to free up individual assets to finance housing, support services, and other basic needs. The federal government should play a role in encouraging these "reverse mortgage" loans by safeguarding both parties to home equity transactions. Consumer protections as well as financial guarantees to lenders will both be needed to make these loans viable.

5. Establish a demonstration project that would pool housing and long-term care resources from the federal government to provide a package of housing and long-term care insurance.

6. In an effort to make continuing care retirement communities (CCRC's) more affordable to lower income individuals, HUD should establish a demonstration project to pool individual assets with federal housing and long-term care subsidies to finance a continuum of services through nonprofit CCRC's.

GOAL #4 — HUD administration should focus on the efficient and cost-effective provision of housing. This goal is best accomplished through clear and consistent regulations with a responsive appeals process, management training and up-to-date procedural manuals for HUD officials and housing administrators, technical assistance to housing managers and sponsors, and the efficient processing of construction and rehabilitation applications.

SPECIFIC RECOMMENDATIONS:

1. Promote cost-effectiveness through program flexibility. Target construction costs should be negotiated by HUD and the sponsor in a manner that reserves control to sponsors over the best way to use available resources. Specifically:

a. Calculate development costs on the basis of a negotiated constuction index rather than the current system based on fair market rates (FMR's).
b. Eliminate rules on the size and types of apartments provided, restrictions on the size of public and shared spaces, and controls on design and construction materials.

2. Managers at existing projects should be permitted to renegotiate current agreements and requirements over the size and types of units as well as over the amount of space devoted to community uses. These managers should be free to adapt units and spaces to the changing needs of residents and the changing demands of the market.

3. Flexibility should be provided for differential rates for different types of units. For example, rents on existing efficiency units should be reduced to 25% of the resident's income in order to fill these units and address the equity problems over requiring the same rents for unequal apartments.

4. Establish firm time guidelines for sponsors and HUD administrators. HUD offices and individuals should be rated by productivity gains in meeting schedules.

5. Provide training and specific guidelines for HUD technical processors to minimize delays due to capriciousness in interpreting regulations.

6. Provide clear and responsive administrative appeals processes for unfavorable decisions by HUD field and regional offices through the Assistant Secretary for Elderly Housing.

7. Produce clear, up-to-date procedural manuals and provide training and technical assistance to aid field offices and housing sponsors on general housing management issues as well as issues specific to the management of elderly housing.

8. Establish a "fast-track" processing system in which sponsors who agree to keep their development costs to specified maximums will have reduced processing requirements.

PARTNERSHIP IN CREATING COMMUNITIES THAT CARE: MEETING THE HOUSING NEEDS OF AGING AMERICANS

INTRODUCTION

This year marks the 50th anniversary of involvment by the federal government in the provision of housing to low- and moderate-income Americans. Part of President Roosevelt's New Deal, the Housing Act of 1937 began a long-term federal commitment to meeting the nation's housing needs. This commitment, first expressed by the Housing Act of 1949, called for "a decent home and a suitable living environment for every American family."

Despite significant past successes, a growing sense of crisis clouds the future of federal housing policy. Homelessness is growing and extending to young families and older people; waiting lists for admission to federally assisted housing units have lengthened into years; and projections of housing needs indicate major shortfalls in low- and moderate-income housing in the near future. Despite these problems, federal budgets for housing have been slashed by roughly 70% compared to levels appropriated in the late 1970's. These budget decreases, when coupled with contract expiration and prepayment of loans, may mean that the number of federally assisted housing units will substantially decrease in the near future.

In order to avert a major housing crisis, the federal government must reassert a strong leadership role in defining the future direction of a national housing policy. Many of the current problems stem from a general lack of commitment and leadership at the federal level. The federal government cannot and should not solve the nation's housing crisis alone, but it must provide the leadership for forging a partnership involving all levels of government, the private sector, and nonprofit organizations. Responding to the varied needs of people of different ages, incomes, disabilities, and family statuses will require creativity, flexibility, and commitment on the part of all who participate in a partnership of caring that must form the foundation of sound policy on housing and community development.

Continuing a role that dates to colonial times, nonprofit community-based organizations have a vital part to play in meeting the future housing and service needs of the nation's elderly and handicapped. As a representative of the nonprofit providers of housing to the elderly, the American Association of Homes for the Aging (AAHA) is pleased to be a part of the dialogue on the future of America's housing policy.

AAHA was founded in 1961 to provide leadership for nonprofit providers of housing and long-term care to the nation's elderly. AAHA's 3200 member organizations include religious, labor, fraternal, and other community organizations who are united by the goal of promoting "communities that care" for older Americans of all races, creeds, and national origins. Representing some of the nation's longest established providers of housing and services to the elderly, AAHA's members continue to serve more than half a million people on a regular basis.

Based on the wealth of experience represented by our membership and looking forward to the future, AAHA offers four basic goals that should guide housing reforms — especially as they affect older Americans. Each general goal is followed by a background discussion and given specificity by concrete proposals. These goals and proposals are presented in the spirit of furthering a partnership among government, the private sector, and nonprofit organizations — a partnership that we believe is crucial to meeting the challenge of promoting communities that care for tomorrow's older citizens.

GOAL #1 — The federal government should renew its commitment to a comprehensive national housing policy that recognises the special needs of older persons. The goals of a national housing policy should include:

- Availablility to all Americans;
- Affordability for individuals and families at all income levels; and
- Suitability for all ages, disability levels, and family statuses.

Availability — Summarizing recent research on assisted and unassisted housing, scholars at MIT have forecast a housing shortage of roughly 12 million units early in the next century. This study noted that not only are we not building units fast enough to meet demand, but that we are also losing units of assisted and unassisted low-income housing at an alarming rate. A recent Congressional Research Service (CRS) study found insufficient housing for low-income families and individuals in all 48 metropolitan areas they examined.

Assisted units are being lost because of two factors: the expiration of rental subsidy contracts and the prepayment of subsidized mortgages. In a 1986 study of the Section 8 rental subsidy program, the General Accounting Office (GAO) estimates that without additional budget authority, project-based units receiving assistance would decline from 1.9 million in 1985 to between 174,000 and 842,000 in 2005. Tenant-based programs, which have 5-year contracts, would be completely eliminated by 1991 if no contracts are extended.

The prepayment of subsidized and insured mortgages is also likely to remove many units of housing from the assisted market. The Congressional Budget Office (CBO) has estimated that the Section 221(d)3 program for providing below market interest rates (BMIR) to developers could lose 76,000 units, roughly half of the total funded by the program, by 2001. A 1986 GAO report notes that 165,000 insured units of Section 236 housing and roughly an equal number of uninsured units could be lost from the assisted inventory by FY 1995. Additional tens of thousands of Section 8 new construction and Farmers Home Administration (FmHA) 515 units could be lost due to prepayment.

The shortage of low-income housing and the loss of assisted units are likely to have a particularly negative impact on the elderly and other groups with special housing needs. In the first place, the MIT study found that shortages are already especially acute in housing for the young and the old. Providers of specialized housing for the elderly and handicapped note that waiting lists are often 5 years or more. The loss of assisted units is also likely to disproportionately affect long-term residents who have aged in place, placing an even greater burden on assisted housing for the elderly.

One of the most cost-effective and innovative approaches to making low-income housing available to the elderly in their neighborhoods is through the adaptive reuse of existing structures. Schools, factories, hotels, convents, and other types of buildings often provide an ideal space and location for elderly housing. By renovating community landmarks, adaptive reuse has made valuable contributions both to neighborhood preservation and community development. Adaptive reuse also promotes the most efficient use of the community's resources by adapting under-utilised public structures to housing needs.

Affordability — When the Section 8 rent subsidy program was enacted in 1974, Congress defined 25% of family income as a reasonable level of expenditure for housing for lower income people. This percentage was increased to 30% in 1983. Even under this less generous definition of affordability, many low-income people are unable to find affordable housing. Research at MIT indicates that the proportion of renter household paying more than 35% of their income for housing increased from 25.1% to 37.2% in the decade from 1974 to 1983.

Again the young and the old were especially likely to suffer because they are disproportionately likely to be poor or near poor. While many very-low-income elderly receive assistance, many more older people have incomes just over the qualifying line — making them "too rich" for federal assistance but too poor to pay for needed housing and supportiveservices themselves. Approximately 2.3 million elderly households must spend over 35% of their incomes for housing. Among elderly women living alone, the average amount of income spent on housing exceeds fifty percent.

The problem of affordability is further exacerbated by the extremely narrow targeting of housing assistance programs. By limiting assistance to those with incomes below 50% of local median income, many poor and near poor people are not eligible for assistance, especially in low-income areas. For the elderly and handicapped who have special housing needs, targeting on income alone often makes specialized housing prohibitively expensive.

Suitability — A comprehensive housing policy must recognize differences in housing needs for different target groups based upon factors such as income, age, family status, and disability level. A comprehensive federal housing policy is the best way to balance the differing needs of various groups and coordinate strategy for meeting the housing needs of all Americans in the most rational and cost-effective manner.

Housing needs change significantly over the life span. Elderly homeowners who purchased homes as young parents to meet the spatial needs of raising children can find themselves "overhoused" as they age when declining income and health may make maintenance and repairs more difficult. This is a particular problem for widows who are often very old and living alone. Older renters and homeowners alike are often confronted with increasing difficulties in managing their current home environments as they age in place. Too often they find themselves trapped in unsuitable living situtations because affordable and suitable alternatives do not exist. Providing adequate housing for the elderly will require both the construction of a range of housing for different disability levels and the adaptation of existing housing to meet changing needs as residents age in place.

Provision for the special needs of the elderly is not at the expense of other age groups. The provision of housing to meet the specific needs of older people can free housing stock more suitable for younger families. This is especially beneficial to community development when younger residents are more able to maintain properties than widowed or disabled older people who feel trapped in homes because affordable alternatives are unavailable.

SPECIFIC RECOMMENDATIONS:

1. The federal government should reassert its leadership role in the provision of low- and moderate-income housing by substantially increasing the number of units of assisted housing through programs run by the Department of Housing and Urban Development (HUD) and the Farmer's Home Administration (FmHA).

2. In recognition of the special housing and service needs of elderly residents of federally assisted housing, the position of Assistant Secretary for Elderly Housing should be established within the Department of Housing and Urban Development (HUD). The responsibilities of the Assistant Secretary for Elderly Housing would include:

— Administration of the Section 202 program, the Congregate Housing Services Program (CHSP) and other HUD programs targeted to the special shelter needs of the elderly.

— Advocacy with HUD and other federal executive departments, other levels of government, and the private sector for the special shelter needs of the elderly.

— Coordination of social services to elderly residents of assisted housing with other federal departments (especially the Department of Health and Human Services) and other levels of government.

— Oversight of HUD regional and local offices to assure that decision-makers at those levels have appropriate training in the special problems associated with elderly housing. This oversight responsibility would also include an appeals process to resolve problems in elderly housing.

3. Federally assisted housing programs for the elderly should strive to meet the target of creating new units for 1% of the elderly population per year; at least 10% of these units should be provided through the Section 202 program.

4. Short and long range actions are critically needed to insure that older tenants are not displaced through prepayment of existing contract nor that rents become unaffordable through the expiration of existing rent subsidy program. As part of any reform of these existing program, there is a need for continuity of assistant for existing older tenants, such as a Transitional Rent Subsidy Program which protects existing tenants.

5. Community development and housing programs should promote strong neighborhoods without displacing older residents through the adaptive reuse of existing community structures as an efficient means to meeting the needs of aging individuals and aging communities.

GOAL #2 — Housing policy for the elderly should promote independent living among older people by providing options in living arrangements to meet a range of needs for housing and services.

The ability to live with dignity and independence should be the cornerstone of federal policy for the aging. Inappropriate housing or the lack or supportive services can be obstacles to this independence. In conjunction with a coherent and comprehensive housing policy, the nation requires a policy on aging to coordinate housing, health, and social services to promote a dignified, independent, and meaningful old age for all Americans.

As families and communities change over time and as individuals physically age, housing needs change. Aging individuals must frequently cope with physical decrements and social losses simultaneously with the declines of their economic resources. These losses can present a major threat to the independence of older people. Housing policy must, therefore, address the multiple needs of older individuals. Current policy discussions on housing and the long-term care of the elderly provide an opportune moment to focus on the critical need to coordinate policies on housing, services, and long-term care if we are to adequately address the needs experienced by older individuals.

The failure to coordinate housing and long-term care policies has created two interrelated problems: 1) federal housing policy is, for the most part, targeted to the fully independent and has failed to recognize the support service needs of those who have problems with activities of daily living (ADL) and 2) long-term health care policy has been too narrowly focused on institutional care when lower levels of in-home assistance would more adequately promote independent living. Instead of incorporating services to maximize the degree of independence to which the individual is capable, recent changes by HUD have, in effect, required resident to be fully independent or leave assisted housing. Little has been done to adapt facilities as residents age in place.

Aging in place is a problem affecting not only the elderly resident but also family, friends, service providers, and housing managers. The average age of residents at many housing sites for the elderly is in the late 70's and early 80's taxing existing formal and informal services and placing enormous burdens on managers who are often ill-equipped to handle the increased need. In a recently completed survey, AAHA members were asked to identify the two most severe problems they have experienced in the past few years. Overwhelmingly, the most frequently cited problems had to do with residents aging in place.

Though nursing homes provide an important function, most experts recognize that institution-based solutions to long-term care problems are over-utilized because options are unavailable. The most credible research estimates that 20% to 30% of the residents in long-term care institutions are institutionalized unnecessarily. An even higher percentage could undoubtedly live in a less restrictive environment if a minimum of in-home supportive services were provided. The definition of long-term care must be broadened to include housing needs as an important dimension of meeting the needs of the whole person.

The impetus for linking housing and services is not just more humane; the enormous cost of institutional long-term care provides a powerful financial incentive for providing alternative services which allow older people to remain in lower cost housing. Approximately 1.5 million older Americans currently reside in nursing homes, a number almost as high as the number of elderly residents in federally assisted housing. The cost to the federal government of this nursing home care in 1986 was $17.6 billion. The General Accounting Office (GAO) estimated in 1983 that Medicaid paid for approximately 45% of the cost and 57% to 82% of the patient days in nursing homes. Another one million older people reside in board and care facilities, most paying their bills through the Supplemental Security Income (SSI) program. Though nursing homes and board and care facilities are generally ignored in discussions of housing policy, these facilities provide a "home" to many of the nation's older people.

Escalating costs and critical shortages of nursing home beds in many sections of the country have created pressure to initiate innovative alternatives to institutional long-term care. A number of successful models linking housing and long-term care services to fill the gap between fully independent living and institutional living have been developed by government and nonprofit organizations. The federal government has been experimenting with limited in-home services through the Medicare and Medicaid programs. The Social Services Block Grant (SSBG) and Title III of the Older Americans Act (OAA) also provide meals and a range of communities and in-home services which facilitates assisted housing option as an alternative to institutional care.

One of the most successful models for developing linkages between federal housing programs and needed social services has been the Congregate Housing Services Program (CHSP). Recognizing that most long-term service needs are for non-medical services to assist in the activities of daily living (ADL), the CHSP has provided nonmedical, in-home services to residents of federally assisted housing in an attempt to prevent unnecessary institutionalization and improve the quality of life for residents who find it difficult to function in total independence. The results from an independent evaluation found that the institutionalization rate can be cut almost in half by the introduction of CHSP services. The CHSP has also made it possible to deinstitutionalize many nursing home residents, since administrators at sites with CHSP services were six times more likely to admit nursing home residents as those who did not have such services to offer.

Nonprofit organizations have often taken the lead in coordinating housing and levels of service appropriate to the needs experienced by individuals. In contrast to the bureaucratic fragmentation of housing and services characteristic of federal programs, nonprofit providers are concerned with addressing the physical, social, emotional, and spiritual needs of the whole person. Based in religious, labor, fraternal, and other organizations, nonprofit organizations have successfully developed linkages to a variety of community services, public and private. Nonprofit organizations have pioneered the development of a range of housing and services appropriate to the level of need experienced by aging individuals. For example, nonprofit organizations developed continuing care retirement communities (CCRC's) which have successfully provided the security of a community with a continuum of services appropriate to individual needs without creating an unduly restrictive institutional environment.

In sum, federal housing policy must recognize that by building housing projects, we are also building communities of people with a variety of needs. Planning for the future needs of the elderly calls attention to the need to link federal housing programs with service programs provided by all levels of government. Federal housing policy should also promote linkages to nonprofit organizations, providing flexibility for nonprofit sponsors to develop different mixes of services consistent with different philosophies about the kinds of communities they want to create and the differing needs of the people they serve. Though different models have been effective, the overriding goal of the linklage of housing and services should be to promote the recovery of function and the maximum independence of the individual.

SPECIFIC RECOMMENDATIONS:

1. Meeting the future needs of the elderly will require effective linkages across federal departmental lines to coordinate housing, social services, and medical care. Greater coordination between HUD and the Department of Health and Human Services (HHS) as well as greater coordination with state and local levels of government would be promoted by a HUD Assistant Secretary for Elderly Housing. Of particular importance are increased linkage between the aging network of the Administration on Aging (AOA) with elderly housing projects, including a priority for nutrition sites located in or near elderly housing projects.

2. In recognitions of the distinct needs of the elderly and handicapped, separate housing and supportive service programs should be developed for each group.

3. Local sponsors of elderly housing — public, private, and nonprofit — should retain maximum flexibility to develop different approaches to linking housing and support services consistent with their own philosophies, the needs and desires of their residents, and available resources. Some sponsors may wish to put priority on providing independent housing, while other sponsors may chose to be entirely devoted to congregate housing targeted to the very frail. Similarly, some sites may wish to employ professional staff to provide services, while other sites may wish to use professional staff primarily as a catalyst to promote the development of voluntary peer support networks. There are successful models for each of these approaches, and sponsors should have the flexibility, guidance, and resources to create different types of communities incorporating different mixes of housing and services.

4. Innovative housing and service arrangements that provide alternatives to nursing home care should be strengthened and extended. Specifically:

— The highly successful Congregate Housing Services Program (CHSP) should be permanently authorized and significantly expanded to serve low- and moderate-income elderly and handicapped in a variety of settings.

— New legislation should provide the necessary incentives to pursue a wide range of housing options for the elderly, including: home sharing; elderly cottage housing opportunity (ECHO) units; equity-based congregate housing; and continuing care retirement communities (CCRC's).

GOAL #3 — A range of federal financing options for housing and services should foster a partnership involving all levels of government, private sector investors and developers, and nonprofit sponsors.

The Historical Partnership

A review of the history of American housing policy reflects the roles and responsibilities of three sectors: 1) public, 2) private, and 3) nonprofit organizations. Each of these sectors has particular approaches to offer a partnership with the other two. Government has used an array of methods — including direct grants and loans, mortgage subsidies and guarantees, and tax incentives — to promote politically favored housing options. Private enterprise has responded to the ebb and flow of economic currents, government policy, and consumer demand to give America the highest percentage of homeowners in the industrialized world. Religious, labor, fraternal, and other nonprofit organizations have played an important role in providing housing for poor, the sick, and the elderly that predates the founding of the country.

The cooperation of government and private efforts to provide housing for elderly and indigent members of the community dates to the founding of American colonies. Colonial communities would often provide money from the common fund on an ad hoc basis for the housing of poor and elderly members, often with relatives or neighbors. As needs grew, the mid-nineteenth century saw the growth of almshouses and "poor farms", many of which continue to exist as county homes for the aging. Direct government involvement in the provision of housing during the first three-fourths of our nation's history was entirely at the local and state levels, laying the groundwork for substantial involvement in the provision of housing of those levels of government to this day.

Religious and community organizations began to play a larger role in the latter part of the nineteenth century through the establishment of homes for the aging. These early homes for the aging relied primarily on charitable donations (often encouraged by tax laws and policies) and the assets of the residents to provide for the needs of their aging members. By the 1920's, nonprofit homes for the aging were among the largest providers of housing and services to the elderly. In response to changing needs of older residents as they age in place, nonprofit homes for the aging also pioneered the integration of multiple levels of housing and services through life care or continuing care retirement communities (CCRCs).

Perhaps the most successful federal intervention in housing policy has been through the provision of tax incentives to promote private homeownership. Deductions and deferrals of income taxes for housing purchases annually accounts for a far larger subsidy to homeowners than the various forms of housing subsidies provided to low-income renters. The result is that the U.S. has moved from having a majority of the population as renters prior to World War II, to a situation where nearly two-thirds of the population own the homes in which they live.

Homeownership is especially likely among the elderly, roughly three-fourths of whom own their homes. The homes of older persons are, however, more likely to be substandard and in need of repair, creating special problems for many elderly homeowners, especially older widows living alone on fixed incomes. Elderly homeowners are, moreover, more likely to be "house-rich" and "income-poor," with substantial home equity but little income to maintain their homes or pay for needed services.

Federal involvement in providing housing to the nation's low-income renters began 50 years ago with the Housing Act of 1937. As part of Roosevelt's New Deal, this act established the public housing program where direct grants are provided to local housing authorities for the construction of new housing units for low- and moderate-income families. In 1949, the Congress extended its housing commitment by establishing a national policy of a "decent home and a suitable living environment for every American family."

In the 50 years since the first federal housing efforts, housing programs have greatly expanded and evolved to meet the changing needs of the American population. Perhaps the greatest change has been the increasing emphasis on addressing the housing needs of the nation's elderly. Before 1956, only 10% of federally assisted housing units were occupied by elderly residents. By the mid-1980's this figure had increased to over 45% of assisted units — a total of roughly 1.5 million units occupied by older residents. There are four major reasons for this increasing focus on housing for the elderly: 1) the disproportionate poverty of older people; 2) the disproportionate likelihood that older people lived in substandard housing; 3) the aging in place of long-term residents of federally assisted housing; and 4) the enactment of programs designed to meet the special housing needs of older people.

Recognition of the special housing needs of the elderly came with the enactment of several programs in the late 1950's and early 1960's. The Section 202 program in 1959 and the Farmer's Home Administration (FHA) Section 515 program in 1962 both provided direct, low-interest loans to organizations who provide low-rent housing for the elderly and handicapped. The public housing program was amended in 1965 to create special housing for older residents.

Though other federal programs provide more assisted housing for older people, Section 202 has been viewed as a centerpiece of federal policy for addressing the housing needs of older Americans. Working exclusively through a partnership with nonprofit community organizations such as churches, unions, and fraternal organizations, Section 202 has successfully operated with only two defaults in its history. As a loan program, the net cost to U.S. Treasury has been negligible despite the hundreds of thousands of older people who have benefited.

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The Section 202 program has undergone several metamorphoses since its creation. The first decade of the program from 1959 to 1969 successfully produced approximately 45,000 units of housing with only one default by a sponsor. Responding to the high interest rates of the late 1960's and to critics who charged that the program was primarily benefiting middle class people, loans through the Section 202 program were phased out.

Replacing the Section 202 program for a brief time was the Section 236 program, which subsidized private loans for low-income housing. Complaints of inadequate assistance levels, excessive expense, and unacceptably high default rates led to the demise of Section 236 in 1974. Today, 245,000 units (46% of the Section 236 units still occupied) house approximately 318,000 elderly residents.

The Section 202 program was revived by the Housing Act of 1974. The program was, however, substantially reshaped by linking the units created to the newly created Section 8 rental assistance program. The purpose of the program was thereby fundamentally redefined from being a program for the elderly to being another form of low-income rental assistance with a special target of the low-income elderly and handicapped. In total, nearly 200,000 units of Section 202 housing are currently occupied by elderly and handicapped residents.

In large part, the Section 8 program was created in 1974 to take advantage of the existing stock of housing in the private market to provide rental assistance to those with low incomes. A program to promote the construction of new units added during the high interest years of the late 1970's was discontinued in 1983 due to high costs and administrative problems. Today, those units tied to the Section 202 program are the only new construction projects promoted by the Section 8 program. Section 8 programs to assist tenants in existing and rehabilitated units currently provide the bulk of new federal housing assistance. The various programs under Section 8 currently provide assistance for 1.9 million units, 49% of which (approximately 947,000 units) are occupied by elderly residents.

Since 1981, the current Administration has fundamentally redefined the role of the federal government in providing housing assistance with major consequences for the private sector and community organizations. Motivated by the twin concerns of reducing the budget and minimizing the direct federal role in the provision of housing, new budget authority for federal housing assistance has decreased by roughly 70% over levels enjoyed during the late 1970's. Targeting of the remaining aid has been tightened to include only the very low income (less than 50% of the local median income) in contrast to the earlier low income standard (less than 80% of the local median income).

The Reagan Administration has been committed to market solutions to the nation's housing problems. Administration analyses claim that the existing housing stock is adequate for meeting current housing needs and that the private market is the most efficient means of allocating housing resources. Existing forms of housing assistance have been phased out in favor of vouchers to those who cannot afford adequate housing due to income restraints. Vouchers are advocated for the dual advantages of relying on market negotiations to minimize costs while allowing individual recipients the maximum freedom to choose the type and location of the housing most suitable for them and their families.

Unfortunately, our nation's ability to meet the housing needs of the future has been greatly weakened by massive reductions in housing programs in recent years. Because most housing programs are authorized and funded for 15 years, expiring contracts and mortgage prepayments by private developers could lead to a serious crisis in the provision of low-rent housing. Contracts for FmHA

Section 515 rental units are already expiring, and the first of the Section 8 subsidies will expire in the next few years. These contract expirations could result in the loss of hundreds of thousands of low-rent units. Many units guaranteed and insured loans under the Sections 236 and 221(d) 3 programs as well as units subsidized under the Section 8 new construction program and the FmHA 515 program will become eligible for prepayment in the next few years, freeing developers from the obligation to rent to low-income tenants.

Recent research indicates that the loss of existing units coupled with the loss of tax incentives for the production of new units could result in a shortfall of several million units of low-income housing in the coming decades. The growing problem of homelessness and the lack of appropriate housing and service options for many Americans of all ages forebode a serious crisis in housing policy in the near future.

The three major sectors in the development of housing — public, private, and nonprofit — all have a role in addressing the increasing need for housing and long-term care for the elderly. Each of these actors has strengths and weaknesses to offer in partnership with the other two. Government has the advantage of large financial resources and the forum for creating a comprehensive policy. To date, however, the mutual isolation of housing and long-term health care policies has resulted in fragmented bureaucracies to meet the needs of the elderly. Housing and redevelopment projects have, moreover, too often ignored the needs of the communities they serve. Through rigid targeting to very-low-income residents and building concentrated housing projects, federal housing has too often isolated the poor rather than integrating them into the community by building on the community's resources.

Partly in response to these problems, the current Administration has sought to minimize the federal role in favor of a market model to allocate housing. The reduction of tax incentives and the elimination of grants, loans, and other subsidies, however, as proposed by the Administration, has virtually eliminated the incentive for private developers to invest in low-income housing. Though vouchers may have the laudable effect of using the market to increase individual choice, they do not create any new housing — particularly, the specialized housing needed by elderly and handicapped residents. Most residents of elderly housing are very old and many are frail, leaving them at a competitive disadvantage if required to compete in the tight housing market for low-income housing. Housing vouchers also do not provide services needed by many elderly residents and do not create the community that is a vital part of social support, especially in later years.

Despite differences in approach, government and market oriented approaches to providing housing to older people share several problems eminating from the fact that neither approach treats shelter in the broader context of meeting the individual's social and service needs. Shelter must link people to communities. Housing programs may provide a roof over one's head, but if they fail to build communities they fail to meet fundamental human needs.

Housing provided by nonprofit organizations has the advantage of building on existing communities that provide an integrated approach to meeting the needs of the whole person — physical, economic, social, and spiritual. But while these groups have created innovative new models, they lack the financial resources to meet the housing and service needs of the elderly alone.

Section 202, A Successful Partnership

A successful federal housing policy must build on existing communities through a partnership of government, private developers, and community organisations. The Section 202 program is a highly successful model of such a partnership where government can foster appropriate housing and services at negligible expense to itself by providing loans to nonprofit community organisations. These organisations begin with a commitment to serving the whole individual through "communities that care." Their programs begin with the recognition that the physical, social, and spiritual needs of the individual are all included in the need for shelter.

Linking of the Section 202 program to the Section 8 rental assistance program has, however, had several negative, unintended consequences. As enacted by Congress in 1974, the Section 8 program provided direct rent subsidies to private developers. In order to contain costs and not compete unfairly with nonsubsidised rental housing, the maximum allowable rent was established as 110% of the local fair market rent (FMR), with exceptions up to 120% allowed. Because sponsors are limited in the mortgages they seek by the rents they will receive, the allowable rent is used as a cost containment measure on new construction. Even though there are no comparable rents in most communities for Section 202 housing, Congress did not take any action to establish separate rules for Section 202 sponsors. Ironically, though this calculation was designed for the Section 8 new construction program, Section 202 is the only program still using FMR's to limit construction costs.

In the 1970's this did not create undue hardship since Section 202 projects were routinely granted an additional 5% for special design features as well as the full 20% allowed under the law. More recently, however, the Administration has set a firm goal of allowing rents of no more than 105% of the FMR. One effect of this restriction is that new Section 202 projects are financially infeasible in large parts of the country. According to research by The Conroy and McIver Group, a consulting firm specialising in Section 202 projects, only 20% of the 363 established Fair Market Rent areas in the country do not experience cost problems when projects are limited to 105% of the FMR for that area. In 66 areas, it would be virtually impossible to build a Section 202 building without significantly compromising underwriting criteria or without a significant contribution from the sponsor or locality.

Other measures mandated by HUD since the linkage to the Section 8 program have also substantially altered the nature of the Section 202 program. Admissions have been limited to very-low-income residents because of targeting restrictions, essentially transforming the mission of Section 202 sites from their primary focus on independent living for low- and moderate-income elderly. Cost containment measures have been rigid and counterproductive. For example, a requirement that projects include at least 25% efficiency units, has been maintained despite protests by residents and sponsors because of the unpopularity of such units with older residents and despite the lack of evidence that costs are reduced by this method. Projects are also restricted to using 5% of their space for community spaces, eliminating the possibility of providing many services as residents age in place.

Finally, linking the Section 202 loan program to the Section 8 rental assistance program has also created political problems by maximizing the apparent appropriations required each year. The Section 202/8 linkage has created a curious system of double accounting where the federal government is appropriating money to repay itself. In additional to all of the management problems this system has created, the political disadvantage results from the appearance of both the loan and its repayment as appropriations despite the fact that the cost of the loan portion has been virtually zero to the Treasury.

One solution to these problems would be the creation of a National Elderly Housing Trust fund. Instead of repaying loans to the Treasury, Section 202 repayments would go into the trust where they could be reallocated in new loans. This would remove the apparent double cost of the loan and its repayment through a rental subsidy. Removing the trust from the regular budget would give a clearer picture of the negligible cost of the loan program.

A more comprehensive system of financing reform that would eliminate many of the problems caused by the Section 202/8 linkage was passed by the House of Representatives in 1983. Under this proposal, which failed to pass the Senate, the Section 202 loan would be replaced by deferred payment, noninterest bearing "construction advances." Housing assistance would be converted into a loan that would be forgiven over a forty year period if the sponsor continued to meet targeting requirements, thus assuring the continued supply of housing to the elderly poor.

This system of financing could be used to increase targeting flexibilty by forgiving loans and providing operating subsidies in proportion to the numbers of residents meeting age, income, and disability targeting requirements. Targeting could be patterned after the Housing Development Assistance Grants (HoDAG) program which requires either 20% of the residents to have very low incomes or 40% to have low incomes. Rents would continue to be 30% of renter income, up to a reasonable rent ceiling for higher income residents. Facilities serving large percentages of very low income residents may require further rental assistance or operating subsidies that could be financed from the Section 8 program.

This relatively simple system would have numerous advantages. The double accounting system where the government appropriates money both for the loan and for its repayment would be eliminated. Income integration of elderly residents would be promoted, and many near poor elderly would be eligible for housing. The inappropriate and troublesome system of calculating rents and construction costs through the Fair Market Rent system would be eliminated. HUD's intervention in management decisions by sponsors would be minimized.

Other Financing Options

In addition to the Section 202 program for the elderly, the federal government has a range of financing mechanisms that could be used to promote a more effective partnership among public, private, and nonprofit organizations needed to meet the housing and service needs of the eldely. Tax policy can be a vital tool to encourage partnerships between private investors and nonprofit providers. Incentives provided by the tax system should allow greater freedom to nonprofit general partners to put together a package of government subsidies and private investment. Requirements on tax exempt housing bonds and 501(c)3 nonprofit bonds should also be relaxed to allow nonprofit developers to put together packages of financing from public, charitable, and investment sources.

The federal government can also play a useful role in helping to release the private home equity assets of individual older people. By providing lender guarantees and consumer safeguards, home equity can be converted into cash to meet the housing and service needs of many older home owners who are asset rich, but cash poor.

Dollars currently spent on long-term care should also be considered as part of the financing strategy for elderly housing. Long-term care insurance for residents of assisted housing could be negotiated, with costs contained by pooling the risks of elderly housing residents and by the negotiating strength of the federal government.

Similarly, the federal government should consider innovative approaches to integrating housing and long-term care such as funding continuing care retirement communities (CCRC's) for lower income people. Similar to contractural arrangements with Social Health Maintenance Organizations (S/HMO's), long-term care and housing could be provided for older people on a continuum of care by multi-level providers such as CCRC's. Government subsidies could supplement private assets to meet a continuum of financial need as well as a continuum of service needs.

SPECIFIC RECOMMENDATIONS:

1. Create the following subtitles under the Section 202 program to provide different financing options:

   I. A National Elderly Housing Trust Fund to administer a revolving account of funds to finance federal elderly housing programs.
   II. A long term, low interest loan connected to rental subsidies (the current system).
   III. A forgivable loan program coupled rental assistance or operating subsidies where necessary. The construction loan would be forgiven over a forty year period in proportion to the relative number of residents meeting age, income, and disability targets. At least 20% of units would be reserved for very-low-income residents or 40% for low-income residents. Otherwise, housing sponsors should retain targeting flexibility to encourage the income integration of elderly residents.
   IV. Grants or loans for modernization and rehabilitation of older Section 202 and Section 236 sites and for adaptation of existing sites to needs precipitated by the aging in place of residents, including the provision of nearby facilities to meet supportive service needs.

2. Each of the above financing options should be available to the following specific programs to be administered under Section 202:

   A. Nonelderly handicapped housing.
   B. Elderly housing.
   C. Rural housing for the elderly. This program would be created by

transferring the FmHA Section 515 program for elderly housing to HUD with appropriate funding transfers.

3. Increase the tax incentives and decrease tax disincentives for investment in low- and moderate-income housing as well as increase the flexibility of tax exempt bonds to allow the growth of partnerships between nonprofit providers and for-profit investors.

4. Expand the proposed home equity demonstration program to free up individual assets to finance housing, support services, and other basic needs. The federal government should play a role in encouraging these "reverse mortgage" loans by safeguarding both parties to home equity transactions. Consumer protections as well as financial guarantees to lenders will both be needed to make these loans viable.

5. Establish a demonstration project that would pool housing and long-term care resources from the federal government to provide a package of housing and long-term care insurance.

5. In an effort to make continuing care retirement communities (CCRC's) more affordable to lower income individuals, HUD should establish a demonstration project to pool individual assets with federal housing and long-term care subsidies to finance a continuum of services through nonprofit CCRC's.

GOAL #4 — HUD administration should focus on the efficient and cost-effective provision of housing. This goal is best accomplished through clear and consistent regulations with a responsive appeals process, management training and up-to-date procedural manuals for HUD officials and housing administrators, technical assistance to housing managers and sponsors, and the efficient processing of construction and rehabilitation applications.

The role of the Department of Housing and Urban Development should be to facilitate the development of housing suitable to the needs of all Americans. HUD can accomplish this goal most effectively tightening its own procedures and focusing on strengthening supportive services to housing managers and sponsors. Procedural efficiency can be promoted through clear regulations that are consistently applied across the nation with recourse where necessary to a responsive appeals process. Technical assistance from the central HUD offices should include training on management issues for HUD officials and for housing managers along with up-to-date procedural manuals that aid managers and sponsors. Field offices should be an extension of these supportive services. Through familiarity with local needs and specific housing projects, field offices should be able to interpret HUD regulations and provide support to sponsors wanted to extend housing services in their areas of jurisdiction.

Unfortunately, recent changes at HUD have often transformed the relationship between HUD and sponsors from partnership and support into an adversarial relationship. Through an overly narrow focus on controlling short-term construction costs, HUD has increasingly extended its role to intervening in day-to-day decisions made by managers and sponsors. Too often this intervention has been short-sighted and counterproductive to the goals of cost-effective and efficient production of housing. This intervention is most problematic in the processing of applications where HUD has established an obstacle course of regulations and screening steps that have added to the short-term and long-term costs of construction and management.

Short-term costs in construction have been added by administrative delays at many sites. Despite HUD regulations requiring Section 202 projects to begin construction within 18 months of funding, HUD's national median processing time was 23 months in 1983. In planning and construction, time delays cost substantial amounts of money. Assuming a six per cent annual inflation rate, costs on a typical $2 million construction job increase $10,000 for every month of delay. On top of inflationary costs are the added costs for the sponsor's staff, the architect, consultants, attorneys, and others involved in the development of a project.

Decentralization of the decision making process at HUD since the late 1970's has added to problems with the expedient processing of housing applications. Each application must go through several reviews to meet cost containment goals at local, regional, and national levels. Decentralization has given field and regional offices substantial discretion in approving funding proposals with the result that the approval process has become capricious and counterproductive. Local and regional offices of HUD have routinely intervened into management decisions actually adding to the short-term and long-term costs of construction and management. In the name of cost containment, local and regional offices have demanded the use of cheaper materials that short-sightedly build in increased maintenance costs over the lifetime of the building.

Long-term costs are increased by HUD-mandated design changes, such as the elimination of sprinkler systems, that do not conform with local fire and safety codes and have led to require expensive retrofitting at a later date. Other required changes such as the elimination of community spaces or elevators ignore predictable changes in the resident population as individuals age in place and require greater services and a barrier-free environment.

HUD has exacerbated the problems of cost-containment and decentralization by reordering its management reward system to emphasize cost containment rather than processing efficiency. Under pressure to limit construction costs, local HUD managers are perversely rewarded for needless interventions and costly delays rather than actual increases in productivity.

SPECIFIC RECOMMENDATIONS:

1. Promote cost-effectiveness through program flexibility. Target construction costs should be negotiated by HUD and the sponsor in a manner that reserves control to sponsors over the best way to use available resources. Specifically:

a. Calculate development costs on the basis of a negotiated constuction index rather than the current system based on fair market rates (FMR's).
b. Eliminate rules on the size and types of apartments provided, restrictions on the size of public and shared spaces, and controls on design and construction materials.

2. Managers at existing projects should be permitted to renegotiate current agreements and requirements over the size and types of units as well as over the amount of space devoted to community uses. These managers should be free to adapt units and spaces to the changing needs of residents and the changing demands of the market.

3. Flexibility should be provided for differential rates for different types of units. For example, rents on existing efficiency units should be reduced to 25% of the resident's income in order to fill these units and address the equity problems over requiring the same rents for unequal apartments.

4. Establish firm time guidelines for sponsors and HUD administrators. HUD offices and individuals should be rated by productivity gains in meeting schedules.

5. Provide training and specific guidelines for HUD technical processors to minimize delays due to capriciousness in interpreting regulations.

6. Provide clear and responsive administrative appeals processes for unfavorable decisions by HUD field and regional offices through the Assistant Secretary for Elderly Housing.

7. Produce clear, up-to-date procedural manuals and provide training and technical assistance to aid field offices and housing sponsors on general

housing management issues as well as issues specific to the management of elderly housing.

8. Establish a "fast-track" processing system in which sponsors who agree to keep their development costs to specified maximums will have reduced processing requirements.

CONCLUSION

Meeting the nation's commitment to "a decent home and a suitable living environment for every American" will require strong federal leadership over the long haul. The goals and proposals put forward in this statement are an effort to contribute to a dialogue that should continue for some time to come. We at AAHA hope that a clear and comprehensive housing policy will emerge from these discussions that is forward looking to the housing needs of the next generation of Americans. Because of foreseeable demographic changes and the nature of federal housing programs, the shelter and service needs of the elderly must be a central concern of policy planners.

Nonprofit organizations should have a important voice in these discussions and a continuing role to play in addressing the housing needs of the nation in partnership with public and private sectors. The historical experience of nonprofit organizations in providing for the housing and service needs of the elderly spans the history of the nation. Nonprofit providers have been at the forefront in developing new and innovative approaches to the changing needs of succeeding generations of aging Americans. With a commitment to meeting the needs of the whole person — physical, social, psychological, and spiritual — nonprofit organizations have a particularly timely message for those dealing with the problems of the elderly.

As a representative of the nonprofit organizations serving the housing and service needs of the elderly, AAHA would like to congratulate the bipartisan leadership of the Subcommittee on Housing and Urban Affairs for creating this forum for discussing the future of the nation's housing policy. After years of neglect, this forum opens a door that has been closed too long to innovative and forward-looking approaches to meeting the housing needs of all Americans. AAHA stands ready to move through that door to the future based on a more effective partnership of public, private, and nonprofit sectors and committed to building "communities that care" for future generations of Americans.

AARP

PROPOSALS OF THE

AMERICAN ASSOCIATION OF RETIRED PERSONS

ON

NATIONAL HOUSING POLICY

SUBMITTED TO THE

NATIONAL HOUSING TASK FORCE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING,
HOUSING, AND URBAN AFFAIRS,

U.S. SENATE

OCTOBER 5, 1987

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PROPOSALS FOR COMPREHENSIVE LEGISLATION TO REFORM AND EXPAND FEDERAL HOUSING ASSISTANCE PROGRAMS FOR OLDER AMERICANS

I. INTRODUCTION

The following discussion papers provide the outline of the principal proposals for comprehensive legislation which the American Association of Retired Persons recommends for the restructuring of current federal policy and programs which provide housing and housing-related assistance to elderly households.

The proposals are based upon the premise that elderly housing must be recognized as a distinct and specialized area within federal housing policy and that it must be integrated more closely with broader federal policy to assist the elderly, particularly in the area of long-term care. Given continued limitations on federal spending for the foreseeable future, the cost and the effectiveness of initiatives in elderly housing and residential services can no longer be evaluated from the perspective of past or current housing programs alone, but must increasingly be assessed in comparison to the cost of alternative forms of assistance provided to older persons through other federal programs.

The proposals are intended to begin the process of integrating federal housing assistance more closely with other forms of assistance provided to older persons by federal, state and local programs. Emphasis is placed on the provision of supportive services in a variety of residential settings and, to the extent possible, the initiation of case management services to assure proper placement of dependent persons and more appropriate and cost-effective provision of needed services. In addition, the proposals seek to provide new priorities in the allocation of limited housing assistance among the elderly, giving greater attention to older persons who live alone and have multiple functional disabilities. Rates of poverty and substandard housing conditions are higher for this group of older persons than for any other segment of the population.

The proposals are further intended to promote greater cost-efficiency in existing federal housing programs, to increase sharing of program costs with state, local and charitable sources of funding, to improve the quality of housing provided with federal assistance and to improve the management of housing assistance provided to elderly persons at all levels of program administration.

II. SUMMARY OF LEGISLATIVE PROPOSALS

The proposed comprehensive elderly housing legislation would consist of eleven separate proposals, each relating to a separate program, initiative, issue or set of issues. These include:

* Major revisions in three existing housing assistance programs (The Section 202, Congregate Housing Services and rental housing voucher programs).

* Three new initiatives for the development of congregate housing facilities and other supportive housing arrangements.

* Two mortgage insurance initiatives to assist elderly homeowners use the equity in their homes to help pay the cost of needed health care, supportive services or other living expenses either while they remain in their homes or move to more supportive residential facilities.

* Proposed amendments to current law to correct a number of long-standing administrative problems for existing HUD elderly housing projects.

* Proposals to address the serious problem of the potential loss of thousands of low-income rental units due to expiration of Section 8 rental assistance contracts.

* A proposed reorganization of HUD's administrative structure to provide for a separate division headed by a Deputy Assistant Secretary for Housing to administer elderly housing assistance and related programs.

AARP is also in the process of developing one additional program initiative which it intends to submit to Congress as a supplement to the legislative proposal. The proposal provides an additional rural housing demonstration initiative to encourage the development of supportive housing through the use of manufactured housing units in mixed-use rural retirement communities.

III. NEW PROGRAM INITIATIVES

A key element in the legislative proposal is the restructuring of assistance under two key HUD programs, rental housing vouchers and congregate housing services (CHSP), and the use of this assistance to provide incentives to encourage innovative housing project development or renovation by local public agencies and non-profit corporations. In the proposed initiatives, financing of a project, together with land acquisition, planning costs and some service program costs, would be provided from local funding sources. Federal mortgage insurance, rental vouchers and CHSP would provide the additional assistance needed to make a project economically feasible or to make rents affordable for low-income elderly households.

Rental vouchers, CHSP and other assistance available under current federal programs would be used to encourage and assist the development of innovative elderly housing arrangements under the following new program initiatives or demonstrations:

Federal/State Congregate Housing Demonstration Program

HUD would be authorized to negotiate agreements with State agencies to assist the development of not less than 20 special congregate housing facilities designed to serve larger concentrations of frail elderly persons than permitted under the current CHSP program. Under such agreements HUD would provide mortgage insurance, rental vouchers and CHSP assistance for selected projects, while state agencies would provide project financing and supplemental financial assistance, as well as coordinate state health care, social services and other program assistance on behalf of qualified residents. Projects would be targeted to lower income elderly who require greater assistance than currently available in assisted housing facilities or those seeking deinstitutionalization from nursing facilities.

Local "Adaptive Reuse" Supportive Housing Initiative

HUD would be authorized to provide assistance to local initiatives to rehabilitate abandoned, surplus, donated or historic properties for the purpose of providing congregate housing, rental housing or supportive group homes or shared housing arrangements for low-income elderly and handicapped persons. Federal assistance would be provided on a competitive basis to approximately 100 projects sponsored by local public agencies or non-profit organizations and is intended to leverage significant commitments of funding for projects from local public and private resources. The three-year demonstration seeks to encourage innovative use of existing properties while assisting in providing facilities within a community that can accommodate the transfer of frail older persons who cannot reside at home without significant or costly assistance or who require some degree of custodial supervision.

Rural Elderly Housing Rehabilitation Demonstration

The proposal provides assistance under existing HUD and FmHA programs to encourage the renovation of existing properties in rural communities to provide supportive housing facilities for elderly and handicapped persons. The proposal creates a three-year demonstration under FmHA's Rural Housing Preservation Grant Program to provide flexible matching grants, and HUD rental voucher and CHSP assistance, to rural governments for use in assisting projects that will renovate eligible properties to provide rental housing and supportive group housing arrangements that are affordable to low income persons. The program would assist approximately 65 projects selected on a competitive basis, with priority given to proposed projects that provide the greatest benefit to very-low income persons, that leverage the greatest amount of non-federal assistance and which achieve needed rehabilitation at the lowest possible cost.

IV. REFORM OF THE SECTION 202 HOUSING PROGRAM

Another major element of the legislative proposal is a comprehensive reform of the Section 202 elderly and handicapped housing program. The proposal would restructure the current construction financing and subsidy arrangements for the program to significantly reduce federal costs, while improving the quality of housing produced under the program, providing greater flexibility in project design and management and improving service programs provided for residents.

The key to the proposal is the replacement of the current duplicative financing procedure of providing market-rate financing and Section 8 subsidies to support projects under the program, a procedure in which HUD essentially extends a loan to the project and then pays itself back through the costly Section 8 program. Under the proposal, financing would be provided in the form of deferred-payment loans, which a sponsor would repay to HUD after twenty years, unless the project is retained for use as low-cost rental housing for elderly and handicapped persons. Loans would be forgiven by HUD after a total of 40 years of continued operation as low income rental housing.

Since project operating budgets and rents would not have to accommodate the sizeable cost of amortized debt payments, a project's unit rents, determined as a portion of a project's operating budget, would more closely approximate the rent payments required of residents (30 percent of adjusted income). This eliminates the need for the sizeable Section 8 payments on behalf of every resident in a facility, and would require greatly reduced rent deficit payments to cover only the difference between the unit rent and the rent payments by residents with very low incomes. The result is a potential savings of nearly $1.3 billion in annual long-term budget authority from what otherwise would be required under the current program in long-term expenditures and costly Treasury borrowing to pay Section 8 subsidies over the twenty year term of the project contracts.

The proposal also revises the project selection criteria for the program to provide a more competitive process for awarding assistance by requiring one or more major cost-reduction features to be incorporated in a project proposal. These include use of less costly housing rehabilitation, provision of land, materials, services, rental subsidies, commitments of future services or other financial or in-kind contributions to the project. The change would reduce federal expenditures, while increasing the financial involvement of sponsors, providing for greater public support for a project and increasing cost sharing with local public agencies and charitable organizations.

V. EXPIRATION OF SECTION 8 SUBSIDY CONTRACTS

The comprehensive legislation also includes proposals to address the potential problem of the loss of hundreds of thousands of units of affordable rental housing for low-income elderly and handicapped persons as a result of the the expiration of 20-year Section 8 rent subsidy contracts. The current Administration has stated that it does not intend to renew these contracts, nor is it likely that any incoming administration will be able to obtain sufficient funding to renew these contracts in their current form.

The proposals would permit an extension of subsidy contracts on a less costly basis than the current Section 8 contracts. A differing approach is proposed for the older Section 202 and Section 236 projects than for the newer, post-1974, Section 202 project, due to their very different financing and subsidy arrangements with HUD.

For the newer Section 202 project contracts, which pose the most serious long-term financing problem, the proposal would require a debt and subsidy restructuring similar to that proposed in Part VI for new Section 202 projects. This would involve the forgiveness of outstanding mortgage debt over a twenty-year period following the expiration of the 20-year contracts, together with rent deficit payments based on greatly reduced project operating budgets. The result, like that under the revised Section 202 program, is that debt can be forgiven and adequate operating deficit assistance provided for substantially less cost than continuing current Section 8 subsidy contracts.

VI. COST ESTIMATES

The proposed reforms in the Section 202 program would provide sufficient savings in annual budget authority to offset much of the cost of the combined proposals in the comprehensive legislation. The major cost savings in the proposal would come from replacing Section 8 payments under the program with greatly reduced rent deficit assistance. As noted above, this could reduce annual long-term Section 8 costs under the program by as much as $1.3 billion. Even if the Treasury were to absorb the entire cost of providing deferred-payment loans under the program as a direct expenditure, potential savings under the program could still amount to between $700 million and $800 million each year.

The cost of the new housing development initiatives included in the comprehensive legislation would involve principally expenditures for rental housing vouchers and CHSP assistance, together with the relatively limited costs of providing federal mortgage insurance and program administration. Rental vouchers assigned to projects constructed or renovated under the initiatives would require approximately $41 million in budget authority to fund five-year contracts in the initial year of the initiatives. Subsequent year funding of vouchers under the three-year demonstration programs would require and additional $39 million.

As summarized in Part III, expenditures for the CHSP program, including assistance to renew current contracts, to provide expanded assistance and to fund assistance under the proposed initiatives, would amount to $64 million for the first year of the program and $178 million over three years. This figure, added to the $80 million in rental vouchers assistance for the proposed initiatives, would provide a total cost in new budget authority of $258 million. This figure could easily be accommodated within in first year savings in long-term expenditures under a reformed Section 202 program.

A major increase in expenditures in the proposed legislation would be the cost of doubling the size of the current rental voucher program. This would involve approximately $1 billion in new budget authority to fund 50,000 additional five-year voucher contracts. The portion of this cost attributed to the proposed 40 percent set-aside for assistance to elderly households would be approximately $400 million a year. Once again, however, the cost of providing 20,000 new rental vouchers for the elderly, together with the cost of the new program initiatives, an expanded CHSP program and other costs associated with the proposed mortgage insurance initiatives and overall program administration, could be accommodated in a single-year savings from changes proposed in the Section 202 program.

The potential costs associated with proposals to extend rent subsidy assistance under current Section 8 contracts is far more difficult to assess, principally due to the lack of adequate data on the number of projects potentially affected, the combined amount of annual Section 8 payments to such projects and their estimated outstanding mortgage balances. While the cost of these proposals would be substantial, even a broad estimate would be difficult without more comprehensive data from HUD.

PROPOSALS FOR COMPREHENSIVE LEGISLATION TO REFORM AND EXPAND FEDERAL HOUSING ASSISTANCE PROGRAMS FOR OLDER AMERICANS

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PART I. CONGREGATE HOUSING INITIATIVES

FEDERAL/STATE CONGREGATE HOUSING DEMONSTRATION PROGRAM

I. PURPOSE

The proposal would provide assistance for the development and operation of specialized congregate housing facilities designed to serve a large number of low-income elderly and disabled individuals who require a coordinated program of supportive services to maintain a maximum degree of independence. Assistance provided to eligible housing sponsors would be administered by designated state agencies responsible for coordinating assistance from federal, state and local sources under broad guidelines established by HUD.

The proposal addresses the need for increased coordination between federal housing, health and public assistance programs in meeting the service needs of older persons in a manner that avoids inappropriate use of current resources and provides alternatives to unnecessary and costly institutionalization. Such coordination can best be achieved at the State level using the incentives provided under the program to promote improved targeting and management of funding from various federal programs.

Facilities developed under the demonstration program are intended to serve larger concentrations of vulnerable individuals than permitted under the current CHSP program. Evaluations of CHSP suggest that increased cost efficiency and more adequate application of the congregate housing concept is possible in projects with larger numbers of persons at risk of institutionalization. A significant portion of this "at risk" population is improperly served by federal assistance. The CHSP evaluations estimate that at least 13 percent of the residents of federally assisted housing may be potentially subject to institutionalization without proper supportive services. Studies also indicate that as many as 35 percent of nursing home residents do not require the advanced level of services they receive.

The proposal is intended to provide special facilities at an intermediate level designed to help reduce the cost of services provided to the frail elderly in residential settings, eliminate unnecessary service costs for those prematurely placed in nursing facilities, and permit more appropriate allocation of both independent living and intermediate care units.

II. PROPOSAL

A. Federal Assistance

1. HUD would be authorized to negotiate agreements with State housing agencies, housing finance agencies, or other public agencies designated for this purpose, to provide assistance to public

agencies and private, non-profit corporations to facilitate the development and operation of not less than 20 specialized congregate housing facilities to assist low-income, mobility-impaired individuals to remain in semi-independent residential arrangements.

2. HUD would provide mortgage insurance for the projects under the Sec. 221(d)(3) program using guidelines currently applicable to the development of Retirement Service Center projects [current underwriting guidelines for the Retirement Service Center program would have to be revised to reflect the 100% project financing under Section 221(d)(3), reduced escrow and reserve requirements due to commitment of HUD and State subsidies, revised low-income occupancy requirements and increased flexibility in providing health-related service space].

3. Additional commitments by HUD under such agreements would include:

    a. Rental housing vouchers for units occupied by persons with incomes below 50 percent of area median income, up to a maximum of 60 percent of total units in a facility.

    b. CHSP assistance applicable to approved costs for services provided to qualified residents. (see CHSP proposals, Part VIII).

    c. Reimbursement of a portion (not exceeding 60 percent) of the administrative costs incurred by the designated State agency in developing and administering the program.

B. State Agreements

1. Financing for projects assisted under the demonstration program would be provided by State housing finance agencies with tax-exempt bonds authorized under Sec. 103(a) of the IRS Code.

2. Additional commitments by States under agreements with the Secretary may include:

    a. Commitment of funds to assist project development in a manner that will reduce development and long-term financing costs (e.g., mortgage subsidies, land acquisition, site development, planning grants, etc.).

    b. Commitment by the State housing agency of funds to provide rental subsidies for lower-income residents not receiving or not qualified to receive federal housing vouchers, in an amount and for a term determined by the Secretary.

c. Agreement by the State Department on Aging to provide resident assessment and case management services, service plan development assistance and local services coordination for a facility through staff of the appropriate area agency office, as well as commitment to provide a priority for residents of an assisted facility in allocating available assistance for meals and services under Title III of the Older Americans Act. Such services would be incorporated in State long-term care plans either in place or under development at the time of application for assistance.

d. Commitment of funding by the State Medicaid agency, either under regular HCFA guidelines or a community service "waiver"program, to provide personal care, visiting nurse and other appropriate services to qualified Medicaid-eligible residents.

e. Agreement by the State welfare agency to coordinate available assistance under federal, state and local programs on behalf of eligible clients residing in a project.

C. Eligible Projects

1. Projects eligible for Federal assistance under the program would provide rental housing for income-eligible elderly and handicapped persons who require a coordinated program of supportive services within a semi-independent residential environment.

2. Proposed projects and individual units would have to conform with standards of design, fixtures and amenities for elderly housing construction required in regulation for the HUD Section 202 program, except that project sponsors may choose not to provide kitchen facilities in individual units where approved by the Secretary.

3. Project construction would be undertaken in an economical manner and would not employ elaborate or extravagant design or materials.

4. Eligible projects must provide a program of services to residents, provided either by staff of the facility or under contract, which is appropriate to meet the needs of potential residents of the project.

   a. Service programs would include meals (at least one prepared meal each day), nutrition assistance, transportation, recreation housekeeping and, as needed, personal care and health-related services provided on a visiting basis.

   b. Services would be provided at cost to residents, or at below cost where public or charitable assistance is made available.

   c. Service programs would incorporate case management services provided either by staff of a project or by local public agencies.

D. Eligible Project Sponsors

1. Eligible sponsors of congregate housing facilities under the program would be public agencies and private non-profit housing corporations with experience in providing housing for elderly and handicapped persons and in providing services in residential settings.

2. Eligible sponsors should also have successful records of coordinating public, private and charitable funding to meet the cost of housing development and service delivery.

E. Resident Eligibility and Admissions

1. Eligible residents would be well, low-income persons over age 62 with multiple functional disabilities that inhibit performance of personal activities of daily living, or handicapped persons under age 62 with physical disabilities that inhibit daily activities.

2. Determinations of eligibility would be made using the same assessment procedures and eligibility criteria provided in the CHSP program.

3. Priority in selecting from among eligible applicants would be provided to persons:

   a. Seeking deinstitutionalization from nursing or personal care facilities;

   b. At high risk of institutionalization and residing in federally-assisted or state-assisted residential projects;

   c. Living alone with little formal or informal sources of assistance or support.

4. A minimum of 40 percent of available units in a facility would be available for persons with incomes below 50 percent of area median income (incentive for admission of additional very low income persons would be provided in HUD's commitment to provide housing vouchers on behalf of such residents for up to 60 percent of total units in a project).

5. A maximum of 20 percent of the units in a project would be available for use by qualified persons with incomes between 80 percent and 110 percent of area median income, who would pay market rate rents established for the area by HUD.

F. Project Selection

1. The HUD Secretary shall select from among competing State applicants according to priorities established in regulating relating to the nature of the projects proposed, the adequacy of proposed programs of services, and the amount and type of assistance committed by State agencies.

2. In allocating assistance under the program the Secretary would seek to achieve adequate regional distribution of projects while permitting individual states to develop sufficient projects to allow efficient allocation and coordination of resources.

G. Report to Congress

1. HUD would be required to make periodic reports to Congress regarding persons served in projects developed with assistance under the program, together with estimates of the cost of providing needed services to such persons and the comparable costs of providing such services in other residential facilities and in intermediate care facilities.

2. For the purpose of such reports, HUD would identify individuals in federally-assisted elderly housing projects and intermediate care facilities in the area of a project who have corresponding functional disabilities to residents of the project to serve as control groups for determining cost differences in providing services to such persons in the various residential and service settings.

III. PROGRAM SIZE AND FEDERAL COSTS

The program would assist a minimum of 20 advanced congregate housing projects sponsored by local public agencies and non-profit corporations. The total number of units assisted by the program would range between 2600 and 3600, depending upon the size of proposed projects.

Costs to the federal government during the initial stages of the demonstration program would involved principally the commitment of funding for an estimated 1500-2000 rental housing vouchers, under five-year, renewable contracts; approximately 1000 commitments of assistance under the CHSP program (as revised in proposals in Part III); and the administrative costs associated with the provision of federal mortgage insurance, reimbursement of State agency costs and general program oversight and evaluation.

PART I. CONGREGATE HOUSING INITIATIVES

LOCAL "ADAPTIVE REUSE" HOUSING DEMONSTRATION PROGRAM

I. PURPOSE

The proposal would authorize HUD to provide assistance available in existing mortgage insurance, rental housing voucher and CHSP programs (as revised by these proposals) to encourage and assist local initiatives to rehabilitate abandoned, surplus, donated or historic properties for the purpose of providing supportive residential facilities for low- and moderate-income elderly and handicapped persons. Federal assistance would be provided, on a competitive basis, for projects sponsored by local public agencies and non-profit organizations, and is intended to leverage commitments of resources for projects from local public and private sources. The proposal anticipates significant local public involvement in a project. Such involvement may involve provision of grants, mortgage financing, mortgage subsidies, rental assistance, planning and architectual assistance, tax abatements or supportive services to residents.

The proposed three-year demonstration program is intended to encourage innovative use of existing properties, while assisting in providing facilities within a community to accomodate the transfer of frail older persons who either cannot reside at home without significant or costly assistance, or who require some degree of custodial supervision. Eligible projects would include rental housing for semi-independent older adults, congregate housing facilities and supportive group homes or shared housing arrangements. Projects assisted by the program would not only help to improve established neighborhoods, but would permit long-time residents to remain in the neighborhood near family, friends and familiar services.

II. PROPOSALS

A. Federal Assistance

1. The HUD Secretary would be authorized to provide assistance to qualified rehabilitation projects sponsored by public agencies and non-profit organizations intended to convert non-residential properties into supportive housing arrangements for elderly and handicapped persons.

2. Assistance would be provided to projects selected through competitive application under procedures established in regulation by the Secretary.

3. The Secretary would provide coordinated assistance to selected projects under the following programs:

    a. Mortgage insurance for qualified rehabilitation loans under the Section 221(d)(3) program.

    b. Rental assistance for qualified tenants under the rental housing voucher program.

    c. Supplemental assistance for supportive services under the Congregate Housing Services Program (CHSP) for qualified residents in appropriate facilities.

    d. Other assistance as provided in appropriations and considered appropriate by the Secretary.

4. Mortgages insured under the program would have to be secured by the property to be rehabilitated, have a principal obligation not exceed the sum of the estimated cost of rehabilitation and the estimated value of the property before rennovation, and meet other appropriate requirements set forth in Sec. 221 of the National Housing Act.

5. Projects and residents eligible to receive assistance under the housing voucher and CHSP programs must meet appropriate requirements established in regulations for each program.

B. Eligible Projects

1. Projects eligible for assistance under the program include a variety of residential arrangements for persons requiring some degree of assistance with the performance of major activities of daily living. Such projects would include:

    a. Multi-unit rental housing with services available to residents requiring some assistance with daily activities.

    b. Congregate living facilities with service programs capable of providing a variety of services to most residents of the facility.

    c. Group homes or shared housing arrangements with services provided by one or more full or part-time staff and by outside service providers.

2. Eligible projects must have at least five separate residential units after rehabilitation.

3. Both the project and individual units must conform with standards of design, fixtures and amenities for elderly

housing required in regulation by the Secretary for rehabilitation projects under the Sec. 202 program.

4. Individual units within a project are not required to include kitchen facilities for smaller projects of shared housing with central dining or shared dining areas. Larger projects should include limited kitchen space, even where shared or congregate dining space and services are provided.

5. No more than 15 percent of the total space in a project may be used for shared or common space for residents. In larger projects the Secretary may approve additional common space for use in providing facilities to provide services to residents and to persons in the community and for retained office space for appropriate public agencies or service providers.

C. Eligible Properties

1. Properties eligible for assistance must be suitable for rennovation for residential houisng and, in the estimation of HUD, capable of meeting both local codes and federal program standards through the proposed program of repair or rehabilitation.

2. Eligible properties would include, but not be limited to, structures previously used, in whole or in part, for:

   a. Public buildings and Schools

   b. Hotels, Rooming Houses, Dormitories

   c. Commercial and office buildings

   d. Hospitals and medical facilities

   e. Factories, warehouses and terminals

   f. Churches and church-related properties

   g. Large private dwellings

3. Eligible projects must occupy all of the property to be rennovated or, in the case of larger properties (i.e., factories, warehouses, etc.), must occupy a separately defined portion of a larger rehabilitation project.

4. Local agencies and non-profit sponsors may obtain assistance in rennovating more than one property as part of a program to provide group residences or shared housing at several

locations in a community. Each property would have to meet standards required by the Secretary for rehabilitation and all relevant program requirements.

5. Projects may involve properties included on a national, state and local register of historic building or properties and must conform to rehabilitation requirements and standards established by the Department of the Interior and local historic preservation agencies.

6. Properties assisted under the program must be owned by the sponsoring organization or controlled by the sponsor through long-term lease or other arrangements with a public or private entity.

    a. Properties may be acquired by the sponsor for purpose of rennovation either by purchase, private donation or transfer by a public agency (e.g., abandoned or condemned properties, properties on local tax roles, properties acquired by eminent domain, etc.).

    b. Project sponsors may acquire control of a property or a separate portion of a larger property through long-term lease or use contracts with public agencies or private organizations. The term of any such lease, contract or agreement would not be less than 20 years.

    c. Eligible properties would also include properties owned by a public agency but made available for the project under a long-term management agreement with the sponsoring agencies or non-profit organization.

D. Role of Local Governments

1. Local governemnts, through designated agencies, would be eligible to participate in projects assisted under the program as:

    a. Project sponsors.

    b. Co-sponsors with non-profit organizations

    c. Owners of property used in a project either through long-term lease, management agreement or other arrangement with project sponsors.

2. Government agencies would also be encouraged to assist projects through a variety of forms of assistance, including:

    a. Donation or transfer of property.

b. Financing of mortgages or rehabilitation loans with tax-exempt bonds or other funding.

c. Direct grants or low-interest or deferred payment loans to assist in project planning or rehabilitation costs (using federal CDBG, rental rehabilitaton grant funds or other federal, state or local program funds).

d. Mortgage reduction payments.

e. Technical assistance.

f. Regulatory relief, include tax abatement, lifting of zoning restrictions on property use and density, "incentive" arrangements in zoning rulings encouraging private developers to make property available for low-income housing, or to provide funds or assistance to projects providing low-income housing.

g. Rental subsidies to residents

h. Management of local agency assistance to coordinate services to residents of a project and to provide case management services.

i. Commitments to fund services to residents in a project.

3. Local agencies, as project sponsors, co-sponsors or owners of properties to be rennovated, may retain portion of larger projects for purposes of providing:

   a. Community facilities serving elderly persons in the project and in the broader community (e.g., senior centers, nutrition sites, etc.).

   b. Office space for agencies or programs serving elderly persons (e.g., office on aging, etc.).

E. Eligible Residents

1. Eligible residents must be age 62 or older, or be physically handicapped.

2. Eligible residents must have incomes below 110 percent of the median income for the area in which a project is located.

3. A minimum of 50 percent of units made available in a project must be occupied by persons with incomes below 50 percent of area median income.

4. Not more than 20 percent of the total units in a project may be occupied by persons with incomes between 80 percent and 110 percent of area median income.

5. Residents eligible for rental assistance under the housing voucher program must have incomes not exceeding 50 percent of area median income.

6. Eligiblity for CHSP assistance would be limited to income-qualified residents of appropriate projects who are determined to have multiple functional disabilities under procedures established in regulation for the CHSP program.

F. Service Requirements

1. Eligible projects must provide a package of services to residents, provided either by staff of the facility or through contract, which is appropriate to meet the needs of potential residents of the project.

2. Service packages would include meals and nutrition assistance, transportation, recreation and housekeeping assistance and, as needed, personal care and health-related services provided on a visiting basis.

3. Services must be provided at cost to residents, or below cost where public or charitable assistance is provided.

4. Service programs would incorporate case management services provided either by staff of a facility or by local public agencies.

5. Additional commercial-style services (e.g., laundry, beauty/barber shops, convenience shops, etc.) may also be incorporated within a project as appropriate.

G. Project Selection

1. In selecting from among competing applications for assistance the Secretary would take into consideration, among other things:

   a. Assessments of need for supportive housing arrangements among elderly persons residing in areas where projects are to be located.

   b. Experience of project sponsors in providing housing and housing-related services to elderly persons.

c. The degree to which projects assist low-income persons, particularly persons with very low incomes.

d. Innovative use of existing properties and original materials.

e. The degree to which rennovation is achieved at the lowest possible cost per unit.

f. The degree of participation and support for the project provided by local governments.

g. The adequacy of proposed service plans and service commitments by the sponsors and other providers.

h. The amount of non-federal assistance provided from state, local and charitable sources of assistance.

i. Commitments to continue service to low-income residents beyond the minimal requirements of the program.

2. The Secretary would attempt, to the extent possible, to provide the broadest possible distribution of assistance among type of projects and among geographic regions.

H. Additional Requirements

1. Projects assisted under the program would continue to serve low- and moderate-income elderly and handicapped persons for not less than 15 years (or for a longer period as may be required to qualify for assistance under state or local programs).

2. Resident participation in the operation of projects assisted under the program would be encouraged through creation of resident councils and by other actions.

III. PROGRAM SIZE AND COST

The Secretary would be required to assist approximately 40 projects each year under the program, and not less than 100 projects over the three-year demonstration.

While anticipated projects will vary widely in size, the average size of projects assisted by the program is likely to be between 35 and 45 units per project. Between 50 percent and 60 percent of the units made available in rennovated projects are likely to be occupied by persons eligible to recieve assistance under the rental voucher program, since this is the principal incentive offered by the program to encourage local financial participation.

The proportion of residents potentially qualified for CHSP assistance would be much lower, but would depend upon the delivery option selected for the CHSP program. Assistance provided in the form of a voucher would have wider application among various residential arrangements and would produce greater demand than the alternative deficit payment approach that would apply principally to congregate facilities.

Costs to the federal government during the initial stages of the demonstration program would thus involve principally the commitment of between 800 and 900 rental vouchers per year, between 300 and 500 unit commitments for CHSP assistance and the minimal administrative costs associated with the provision of commitments of federal mortgage insurance and general program oversight.

PART II. RURAL ELDERLY HOUSING REHABILITATION DEMONSTRATION PROGRAM

I. PURPOSE

To provide assistance under existing programs administered by the Farmers Home Administration (FmHA) and the Department of Housing and Urban Development (HUD) to encourage the rennovation of existing structures in rural communities to provide supportive housing facilities for elderly and handicapped persons. The proposal creates a three-year demonstration program under FmHA's Rural Housing Preservation Grant program to provide flexible matching grants to rural governments to be used to help reduce the cost of rehabilitating eligible properties to provide rental housing that is affordable for lower income persons. Eligible projects under the program would include a variety of supportive housing arrangements sponsored by local public agencies and nonprofit organizations, including rental projects, congregate housing facilities and smaller group homes and shared housing arrangements. Additional assistance would be available to qualified residents in projects assisted by the program under HUD's rental housing voucher and Congregate Housing Services Program (CHSP).

The demonstration program is intended to revive the original intent of FmHA's rural housing preservation program of promoting a competitive grant program designed to encourage innovative rehabilitation of rural properties for low-income housing at the lowest possible cost and with the greatest possible degree of local financial participation. The proposal would revise the current program to give greater attention to rennovation of surplus non-residential properties, including schools, commercial buildings and medical facilities, to provide specialized rental facilities for the elderly and handicapped. It would also encourage project sponsors to provide a coordinated plan of services for residents and require extended commitments to maintain projects as rental housing for lower income persons.

The program would assist approximately 65 projects during the demonstration period with funds set-aside for allocation by FmHA's national office. Priority would be given to proposed projects that provide the greatest benefit to low-income persons, particularly persons with very low incomes, that leverage the greatest amount of non-federal assisteqnce and which achieve necessary rehabilitation at the lowest possible cost.

II. PROPOSAL

A. Federal Assistance

1. Section 533 of the Housing Act of 1949 would be amended to authorize the Secretary of Agriculture (hereafter "the Secretary") to set aside funding under the Rural Housing Preservation Grant Program to conduct a three-year demonstration, in cooperation with HUD, to encourage the rennovation of existing structures in rural communities to provide supportive housing arrangements for elderly and handicapped persons.

2. Not less than 15 percent of funding appropriated for the Rural Housing Preservation Grant program for each of three consecutive fiscal years would be set-aside for allocation by the Secretary under the demonstration program.

   a. Assistance would be provided to not less than 20 projects in any fiscal year, and not less than 65 projects during the demonstration program.

   b. Assistance would be made available by the Secretary to projects selected through a national competition under application and selection procedures established in regulation.

   c. Funding reserved for the demonstration program would be exempted from the regional allocation formula provided in section 533(c)(1) and would remain available until expended for purposes of the demonstration program. [subsection (c)(1) would permit unused funds for the grant program to be shifted to the Sec. 504 home repair program.]

3. Assistance provided under the demonstration would be made available in the form of grants to units of local government (county, town, village or combinations thereof) for use in providing financial assistance to qualified housing renovation or rehabilitation projects sponsored by local public agencies or private non-profit corporations (or co-sponsored by a local public agency and a non-profit corporation).

4. Assistance provided by grant recipients to qualified projects would be designed to reduce the cost of rennovation to provide rental units that are affordable to low- and moderate-income persons, and may include:

   a. Direct grants

b. Low-interest loans

c. Interest reduction payments

d. Other comparable financial assistance.

5. Projects selected by the Secretary to receive grants under the demonstration program would be eligible for additional assistance with funding set-aside under HUD's rental housing voucher program and Congregate Housing Services Program (CHSP), subject to the following conditions:

   a. Assistance made available under the rental voucher program would be allocated only for units occupied by persons with very low incomes (below 50 percent of area median income) and only in projects where the FmHA Secretary determines that assistance provided to the project is insufficient to reduce rents to a level that is affordable to tenants with very low incomes.

   b. CHSP assistance would be available to participating projects on behalf of qualified residents only where a projects meets all appropriate requirements established in regulation for the CHSP program.

      1). Qualified residents would be income eligible persons who are determined to have multiple functional disabilities under assessment procedures set forth in regulation for the CHSP program.

      2). Assistance made aqvailable to qualified residents in projects assisted under the demonstration would be limited to residents occupying not more than 30 percent of the total units made available in a project.

   c. Assistance available under both programs would be provided, under contract with HUD, for a period of five years. Such assistance would be subject to renewel for up to ten additional years, upon application to the HUD Secretary.

B. Eligible Projects

1. Eligible projects under the demonstration program would be those which propose to renovate existing properties to provide a variety of supportive housing arrangements, including congregate housing facilities, intended for use by elderly or handicapped persons who require some degree of supervision

or assistance with activities of daily living, but are otherwise able to care for themselves.

2. For purposes of the demonstration program, "supportive" housing arrangements would include:

   a. Congregate housing facilities providing rental units that may or may not have kitchen facilities; that provide at least one prepared meal a day in a central dining area, and which offer a program of services, either on site or through contract, to meet the need for additional services by residents.

   b. Rental housing facilities with structural features and limited services intended to provide emergency assistance and basic support for elderly and handicapped residents.

   c. Smaller group homes or shared housing arrangements with limited supportive services available through staff in residence or by outside service providers.

3. Eligible projects must have at least five separate residential units after rennovation or rehabilitation and may include common or shared space for use by all residents.

4. Proposed projects and individual units must conform with standards of design, fixtures and amenities for elderly housing required in regulation for rehabilitation projects under the HUD Section 202 program, except where specific exceptions may be granted by the Secretary.

5. Projects assisted under the program must involve rennovation or rehabilitation which is undertaken in an economical manner and which does not involve elaborate or extravagant design or materials (except that special fixtures or equipment required for use by frail elderly or handicapped persons would not be considered elaborate or extravagant).

6. Eligible projects must provide a minimal level of services for residents required in regulation by the Secretary as appropriate for the type of housing to be developed.

C. Eligible Properties

1. For purposes of the demonstration program, properties eligible for rennovation or rehabilitation with assistance under the program would include both existing residential properties and non-residential properties capable of rennovation for residential rental housing for elderly and handicapped persons.

2. Properties to be assisted under the program must be suitable for conversion or rehabilitation for residential rental housing and, in the estimation of the Secretary, capable of meeting both local codes and federal program standards through the proposed program of rennovation or rehabilitation.

3. Non-residential properties to be converted to residential facilities may include structures previously used, in whole or in part, as public buildings, schools, churches, commercial or office buildings, hotels or motels, hospitals or medical buildings and other structures considered appropriate for the purposes of the program by the Secretary.

4. The Secretary may approve projects involving more than one property as part of a single application to provide group residences or shared housing at more than one location within a community or jurisdiction. Each property would have to meet eligibility requirements and rehabilitation standards required under the program.

5. Projects may involve properties included on a national, state or local register of historical buildings or properties and must conform to rehabilitation requirements and standards established by the Department of the Interior and local historic preservation agencies.

6. Properties assisted under the program must be owned by the sponsoring public agency or non-profit organization or controlled by the sponsor through long-term lease or other arrangement with a public or private entity.

   a. Properties may be acquired by the sponsor either by purchase, private donation or transfer by a public agency.

   b. Project sponsors may acquire long-term control of a property through lease or use contracts with public agencies and private entities. The term of any such lease or contract would not be less than 15 years.

D. Program Requirements

1. To be eligible for grant assistance under the demonstration program a unit of local government must agree:

   a. To provide financial or other assistance for a proposed project, separate from financial assistance provided with grant funds received under the program, that is designed to reduce the cost of project rehabilitation or rennovation in order to further reduce unit rents to levels that are affordable to low- and moderate-income residents.

1). Such assistance may include direct financial assistance in the form of grants, low-interest or deferred payment loans, interest subsidies or unit rent subsidies; contributions of property, materials or services; regulatory relief, including tax abatement; and and other forms of assistance acceptable to the Secretary.

2). The amount of assistance to be provided, including the amount of direct funding and the estimated value of donated property, services or regulatory actions, must be at least equal to the amount of grant assistance received under the program.

b. To assist in the provision of services within a project through coordination of program assistance available to qualified residents through local agencies.

c. To supervise rennovation or rehabilitation of a project, including providing for all necessary inspections, and to monitor compliance with other program requirements by project sponsors.

2. Sponsors of projects assisted under the program must agree:

a. To maintain assisted properties as rental housing for use by lower-income elderly and handicapped persons for a period of not less than 15 years (or for a longer period as may be required for eligibility for assistance under state or local programs).

b. To pass on to residents in the form of reduced rents the reduction in project development costs resulting from assistance received under the program.

c. To maintain the program of services to residents proposed in project applications for a period of 15 years, except where otherwise provided by the Secretary.

E. Eligible Residents

1. Eligibility to occupy units in projects assisted under the demonstration program would be limited to persons--

a. Age 62 or older, or persons under age 62 who are physically handicapped.

b. Are capable of living independently with the support provided by services generally available to residents of a project.

   c. With incomes below 110 percent of the median income for the area in which a project is located.

2. A minimum of 40 percent of units made available in a project must be occupied by persons with incomes below 50 percent of area median income.

3. Not more than 20 percent of the total units available in a project may be occupied by persons with incomes between 80 percent and 110 percent of area median income.

F. Project Selection

1. The Secretary would issue proposed regulations, not later than 90 days following the effective date of enacting legislation, providing for a competitive grant program administered on a national basis by FmHA in cooperation with HUD.

2. Units of local government seeking assistance under the program must submit applications describing the proposed project, the project sponsor, anticipated sources of funding and other information required by the Secretary.

3. In evaluating the merits of competing applications for assistance the Secretary would be required to take into consideration, among other things:

   a. Assessments of need for supportive housing arrangements among elderly and handicapped persons in the area to be served by proposed projects.

   b. Experience of project sponsors in providing housing through conversion or rehabilitation and in providing residential services to frail or disabled persons.

   c. Innovative use of existing properties and original materials.

   d. The adequacy of proposed service plans and service commitments by project sponsors and other service providers.

   e. Commitment by project sponsors to continue service to low-income persons beyond the minimal requirements of the program.

4. The Secretary would assign priority among eligible project proposals on the basis of:

   a. The extent to which projects assist low-income persons, particularly persons with very low incomes.

b. The degree to which the program of rennovation or rehabilitation is achieved at the lowest possible per unit cost.

c. The extent of participation and support for the project provided by local governmental agencies.

d. The amount of non-federal assistance provided from state, local and charitable sources of assistance.

5. In selecting from among competing applications the Secretary, to the extent possible, would provide for the broadest distribution of assistance among types of jurisdictions (county, city, town, etc.), among geographic regions and among types of facilities eligible for assistance.

III. PROGRAM SIZE AND COST

A. Anticipated funding for the demonstration program under the FmHA rural preservation grant program would amount to $1.5 million each fiscal year, or $4.5 million for the three-year program. Appropriations for the program are currently $10 millon and are not expected to increase measurably in the near future. The proposal sets aside 15 percent of this amount annually.

B. Projects assisted under the program would range in size from five units to approximately 50 units, with the average project providing between 18 and 24 units. Assuming that the Secretary provides assistance to an average of 20 projects each year, the total number of units made available under the program would total between 360-480 units per year (or approximately 1000-1400 units over three years).

C. Assistance provided to selected projects from funding set aside under the FmHA grant program would average $75,000 per project. However, the Secretary would have authority to provide greater or lesser amounts of assistance based upon the size of proposed projects and the proposed program of rennovation. The amount of assistance provided would be matched (at a minimum) with assistance provided locally.

D. Assistance provided under HUD's housing voucher program would be made available to an estimated 35-40 percent of the units provided in assisted projects. With a current average cost per voucher of $4100 per year (which is probably more than would be needed in most projects), annual costs for vouchers provided would be between $615,000 and $830,000 per year. When computed over the five-year voucher contract period, total budget authority for housing vouchers under the program would amount to between $3 million and $4million each year.

E. Assistance provided by HUD's CHSP program would average less than 20 percent of residents in all projects, amounting to between 70 and 100 persons assisted each year. Assuming an average cost per year of $2160 for assistance to qualified persons under CHSP (see CHSP cost estiamtes, Part V), assistance provided under the demonstration program would average between $150,000 and $200,000 per year. Total budget authority (computed for five-year contracts) would amount to approximately $760,000 and $1 million annually.

PART III. REAUTHORIZATION AND EXPANSION OF THE CONGREGATE HOUSING SERVICES PROGRAM (CHSP)

I. PURPOSE

To reauthorize the Congregate Housing Services Program (CHSP) in a manner that builds upon the experience and data of the CHSP demonstration program, permits an "interim" expansion of assistance in anticipation of broader application in future years and provides assistance to participants in the congregate housing initiatives proposed in the broader legislation. This proposal seeks to preserve the current structure of the CHSP program, as a HUD-administered supplemental assistance program for qualified residents of federallyassisted elderly housing facilities, while changing only the manner in which assistance is provided to make it more flexible and to reduce administrative costs.

The proposal rejects other approachws that would make major structural or administrative changes in CHSP, particularly that of converting it to a Stateadministered matching grant program. Such an approach might result in the program being reduced again to a demonstration status or merged with other assistance into a broader housing block grant that may be administered, in many instances, in a manner that is less attentive to the service needs of frail older persons.

II. FORM OF ASSISTANCE

CHSP would continue to provide assistance to eligible HUD-assisted facilities to help defray the cost of providing services to qualified, functionally-impaired residents. The form of assistance would be changed in a manner intended to streamline administration. If a broad national program of service assistance is anticipated, the detailed, almost personalized approach in which assistance has been provided under CHSP in the past must be made more efficient and automatic. Also, participating facilities need to predict levels of assistance under the program over a longer period of time. This could be achieved through either of two forms of assistance: a service deficit payment attributable to the service costs of qualified residents, or a residential service voucher provided on behalf of qualified residents.

A. Option 1: Service Deficit Payments

1. Assistance would be provided by HUD to eligible facilities to pay costs of services provided to qualified residents which are not met from other revenue sources (resident fee payments, public programs assistance, insurance, contributions etc.).

2. The amount of assistance provided would be determined annually based on projected service budgets submitted to HUD.

3. Assistance would be provided in an amount corresponding to the excess cost above anticipated revenue attributable to a qualified resident, up to a maximum amount established by the HUD Secretary.

4. In determining maximum payments under the program, the HUD Secretary would take into consideration potential fee payments by qualified residents and anticipated payment from funding by public and charitable sources in compliance with program requirements (see below).

B. Option 2: Residential Services Vouchers

1. Assistance would be provided as a set payment directly applicable to the cost of providing services to qualified residents.

2. The amount of assistance provided with each voucher would be established at the outset of the program (the "base rate") using data on average costs of service delivery under CHSP. In establishing the base rate, HUD would take into consideration average anticipated fee payments by participating residents and estimated payments from other public and private funding sources.

3. The base rate for the program would be adjusted annually according to a nationally recognized index of service costs selected by the Secretary and would be used both for new contracts and adjustment of existing contracts.

4. Total assistance provided to a facility would equal the value of the voucher multiplied by the number of qualified residents.

III. AMOUNT OF ASSISTANCE

A. The term of the assistance provided under contracts by HUD would be five years under either form of assistance and would be renewable upon application by the housing sponsor.

B. The HUD Secretary would establish in regulations, as a percentage of residents in a facility, minimum and maximum numbers of qualified residents that can receive assistance, taking into consideration the minimum number of participants necessary, together with other sources of payment, to assure the availability of services and cost-efficient provision of services, as well as the need to preserve the overall atmosphere of independent living in a facility.

C. The number of residents assisted in a facility would be determined by HUD and established in a contract. Assistance would be assigned to a facility on behalf of qualified residents and could be transferred to another eligible resident in the event of death or transfer of an original participant. Any funds not used on behalf of an eligible resident would be refunded to HUD.

III. RESIDENT ELIGIBILITY

A. Resident eligibility would be established, as under the current CHSP program, by determinations of professional assessment committees that an individual (who is qualified by income for residency in a facility) is incapable of performing multiple personal activities of daily living and is in need of assistance (current CHSP policy require three or more areas of functional incapacity).

B. The HUD Secretary would establish standardized assessment forms and procedures for making determinations of eligibility and provide guidelines for the composition of professional assessment committees consistent with current CHSP practice.

C. Preferences for allocating assistance among eligible residents or applicants may be established and would include:

1. Persons in greatest need of assistance due to determinations of multiple functional disabilities;

2. Persons living alone without sources of informal support from a spouse or relatives: and

3. Persons with very low incomes.

IV. ELIGIBLE FACILITIES

A. Eligible facilities include public and non-profit sponsored HUD-assisted facilities for the elderly and handicapped (those assisted under HUD's public housing, Sec. 202, Sec. 236, Sec. 231, Sec. 8 and Sec. 221(d)(3) programs) having a significant portion of their resident population determined to be potentially incapable of independent living without appropriate services.

B. Eligible facilities would also be required to:

1. Establish a voluntary professional assessment procedure and case management system either separately or in cooperation with local area agencies on aging or other agency or organization.

2. Provide a comprehensive service plan capable of meeting the service needs of residents with varying levels of functional disability.

3. Obtain additional assistance from State and local agencies and charitable entities to help reduce the cost of providing services to residents. The Secretary shall establish minimum acceptable levels of such matching assistance, taking into account direct payments, services and in-kind contributions, and shall give priority in allocating assistance to facilities with diversified and innovative service programs and financing.

V. SERVICE PROGRAMS

Congregate services programs in facilities assisted under the program must provide one prepared meal a day, seven days a week, and must provide assistance to residents in preparing or securing additional food adequate for proper nutrition. Programs must also provide, as required by residents, assistance in housekeeping, personal care, transportation and other services essential to independent living.

VI. RESIDENT SERVICE FEES

A. Each facility shall establish a schedule of fees for meals and services that is reasonable and does not exceed actual costs. The Secretary shall establish maximum fees, as a percentage of income, that CHSP participants can be charged for meals, personal care, housekeeping and other services, and for all combined services.

B. Residents not receiving CHSP assistance may purchase all services offered in the facility at the full fee minus any assistance for which they qualify or any assistance applicable to all residents.

C. The Secretary shall encourage cost reduction activities to reduce fees for all residents, including use of surplus commodities programs, group purchasing arrangements, competitive bidding of contracts and use of volunteers.

D. The Secretary shall periodically review service fees in assisted facilities to determine if they are reasonable and if assistance is properly used.

VII. PROGRAM SIZE

The proposal provides permanent reauthorization of CHSP, while projecting authorization levels for an "interim" program of three years. Initial year funding would include replacement of existing contracts in the 63 current CHSP programs, allocation of assistance for facilities developed under the various congregate housing initiatives in the proposed legislation and provision of assistance applicable to some 2000 residents (slightly more than the number served in the current CHSP program) for expansion to new programs in existing HUD-assisted facilities. In the succeeding two years the annual level of assistance would decline somewhat, but increase incrementally in terms of available assistance for new CHSP programs in existing facilities. The amount of new assistance proposed for these years remains limited in anticipation of continued budgetary limitations and only gradual expansion in HUD's ability to process larger amounts of assistance.

Proposed allocation of expanded CHSP assistance can be summarized as follows:

First Year Allocations	
a. Replacement of current contracts	2000 units
b. Assigned to Demonstration Programs	2000 units
c. Expansion for New Programs	2000 units
Total	6000 units
Second year Allocations	
a. Assigned for Continuing Demonstrations	1000 units
b. Expansion for New Prorams	3000 units
Total	4000 units
Third Year Allocations	
a. Assigned for Continuing Demonstrations	1000 units
b. Expansion for New Programs	5000 units
Total	6000 units
Total for Three Years	16,000 units

VIII. PROGRAM COST

Data from HUD's CHSP evaluation estimate the average federal share of the cost of providing services under CHSP as being $6.80 per day per participant ($204 per month). HUD's analysis criticizes expenses under the program as excessive, particularly in the areas of meals and administration. In response, HUD revised program requirements last spring to reduce the number of required meals from two to one per day. Considering this change, and the stronger requirements for supplemental sources of funding to reduce federal costs, it is conceivable that average payment levels to facilities under either a deficit payment or a voucher approach would be below this average level. If the amount of assistance, per participant, were estimated at $6.00 per day ($180 per month) for qualified participants in a program initiated next year, the initial year costs of the program could be summarized as follows:

6000 units of assistance @ $2160 a year

Annual cost	$12.96 million
Contract Authority (5 Years)	$64.80 million

Assuming a 3 percent inflation adjustment in the amount of the payment allocated for each participant in each of the two following years, program could be estimated to be:

Second year--4000 units of asistance @ $2224.80 a year

Annual cost	$ 8.90 million
Contract Authority (5 Years)	$44.50 million

Third year--6000 units of assistance @ $2291.54 a year

Annual cost	$13.75 million
Contract Authority (5 Years)	$68.75 million

Total Contract Authority (3-Year Program) $178.05 million

Note on Delivery Options: While the approach of providing deficit payments for costs of services provided to qualified residents is closest to the method currently employed in the CHSP program, it is potentially the most costly. Like the pre-1984 method of reimbursing for costs of Medicare services, it essentially agrees to pay for any uncovered costs up to a set limit, offering little incentive for cost control. The fixed payment method of a voucher may provide incentives for many providers to reduce costs or seek additional sources of funding. For providers with low costs it could offer a reward for efficiency which, hopefully, would be converted into additional services to residents (however, this is not always guaranteed with fixed-payment programs). The voucher approach has the added political advantage of appearing to build upon HUD's experience with housing vouchers and providing a format acceptable to Republicans.

PART IV. FEDERAL MORTGAGE INSURANCE INITIATIVES

HOME EQUITY CONVERSION MORTGAGE INSURANCE DEMONSTRATION PROGRAM

I. PURPOSE

Home equity conversion would enable older homeowners to convert the equity in their homes into additional cash resources while they continue to reside in their own dwellings. Besides permitting the elderly to live in familiar surroundings, home equity conversions can potentially finance home maintenance, in-home health care or other needed supportive services.

Home equity conversion mechanisms have been used on a limited basis in the past, but there is now substantial interest in the concept among older homeowners. However, lenders have been unwilling to offer such mechanisms as a regular financial service because they are considered new and untested. Conventional long term mortgages once faced the same problem, but became generally accepted once federal mortgage insurance was provided.

The proposed home equity conversion mortgage insurance program would encourage financial institutions and older homeowners to use this innovative mortgage concept by extending federal mortgage insurance protection to lenders to protect them from loss in instances where borrowers outlive the equity in their homes. It would also provide numerous safeguards for elderly borrowers including full disclosure by lenders, required counseling on the various alternative options available and potential risks and annual mortgage statements.

II. PROPOSAL

The proposed program is identical to the home equity conversion provision included in H.R. 4 and S. 825, which are now under consideration by the House/Senate Banking Conference Committee. It would establish an insurance demonstration under the Federal Housing Administration (FHA) which would be authorized to insure up to 2,500 home equity conversion mortgages through September 30, 1991 on homes that do not exceed HUD's Section 203(b)(2) mortgage limits. Insurance coverage would be limited to $67,500 in most areas and $90,000 in designated high-cost areas.

The proposal would protect participating elderly homeowners from being forced to leave their homes by provisions which would defer their repayment obligation until either after their death or the voluntary sale of their home. Potential borrowers under the program would be provided information on possible alternative options to home equity conversion, including other housing, social service, health and financial options. Full disclosure of all financial implications of the mortgage transactions would also be required, including any tax consequences, any adverse consequences for their estate or heirs, and possibilities for assistance or relief from federal, state or local programs.

III. PROGRAM COST

The proposal would be largely self-financing. The cost to the federal government would be confined principally to program administration. Possible insurance losses would be paid from a risk pool funding from premiums paid by participating elderly homeowners.

PART IV. FEDERAL MORTGAGE INSURANCE INITIATIVES

MUTUAL BENEFIT MORTGAGE INSURANCE DEMONSTRATION PROGRAM

I. PURPOSE

The program provides federal mortgage insurance for purchases by low-income homebuyers of qualified single-family dwellings of frail elderly owners under terms negotiated to be mutually beneficial in meeting the initial financial obligations of homeownership for the younger homebuyer and the long-term housing and health care needs of the elderly owner.

Mutual Benefit Mortgages (MBMs) would be negotiated between an owner and buyer, with the advice and assistance of an approved local public agency or non-profit organisation, to permit a beneficial structuring of the principal financial asset of the elderly owner in a manner best suited to meet future housing, health and service needs. Since most homeowners assisted under the program would have multiple functional disabilities, the negotiated procedure offers protection from fraud or loss of equity in the sale of their home, particularly in cases where the owner has diminished capacity or lacks assistance from family. At the same time, MBMs permit a structuring of payments intended to assist younger homebuyers by providing lower payments in the initial years of a mortgage when anticipated income is lower, or when additional income is needed to make repairs to the property at the time of occupancy. Since, insured mortgages would be owner-financed, both parties to the transaction would benefit from the elimination of financing fees, interest points, legal fees and other potential costs of traditional financing arrangements.

HUD would be authorised under the program to provide assistance to low-income homebuyers where it is determined that total homeownership costs are excessive. Assistance could be provided under one of two options, either a) through the current Section 235 homeownership assistance program, or b) under a special fund established by HUD for the purpose of the demonstration to provide supplemental assistance when necessary payments exceed 40 percent of the homebuyer's income. HUD would also be authorised to advance payments to the elderly owner if, during the active term of the mortgage, the owner should require additional income to meet increased service or health care needs. Assistance provided to younger homebuyers would be funded by the Treasury, while payments advanced to elderly owners would be recovered in later payments or upon disposition of the property at the death of the owner or refinancing of the mortgage.

While offering elderly owners the ability to structure mortgage payments to meet their future income needs, with the optional benefit of accelerated payments from HUD should their needs increase, the program provides the elderly owner/seller with a federal guarantee that mortgage payments will be made and any unsued equity from the sale of their home would be available to their heirs after their death. The arrangements offers the government a means of assisting in structuring the assets of frail elderly persons in a manner best suited to meet long-term care needs, thus avoiding a quick "spend-down" or transfer of assets to qualify for federal assistance. The program is intended to permit the federal government to assist both homeownership among low-income families and extended care among the elderly at a fraction of the cost of available assistance programs. The proposal offers the additional benefit to federal policy of encouraging the most efficient use of the stock of existing housing.

II. PROPOSAL

A. Mortgage Insurance Authority

1. HUD would be authorized to insure mortgages executed by local public agencies or non-profit organizations on behalf of qualified elderly homeowners selling a personal residence to eligible low- and moderate-income homebuyers.

2. Mortgages insured under the program would be held jointly by HUD and the owner, as co-mortgagees, with financing provided by the owner.

3. Mortgages insured under the program may not involve a principal obligation in excess of the maximum dollar amount established for single-family dwellings under Sec. 203(b)(2) of the National Housing Act.

4. The local agency or non-profit organization would structure the mortgage and process applications for mortgage insurance and homeownership assistance under guidelines established in regulation by HUD.

    a. Eligible local agencies would include housing authorities, offices on aging, social services agencies or other agencies designated for purposes of the program.

    b. Eligible non-profit organizations would include qualified low-income housing or elderly advocacy organizations, sponsors of HUD-assisted elderly housing facilities or other organizations with experience providing housing-related assistance to elderly or low-income persons or with HUD mortgage insurance programs.

5. The agency or non-profit organization would act as the agent

of the elderly homeowner/seller in negotiating the terms of a mortgage to assure protection of the owner's financial interests, but would also--

a. Seek to promote the interests of the homebuyer in obtaining the most beneficial terms possible under the mortgage;

b. Counsel both the owner and the buyer of the financial, tax and other implications involved in the mortgage transaction, as well as the possible benefits and disadvantages of various options and arrangements.

6. The agency or non-profit organization would remain responsible for monitoring the mortgage agreement, would be responsible for disposition of the property in the event of a default and, under certain circumstances, may retain responsibility for collecting and transferring payment under the mortgage.

7. Where a property is in deteriorated condition and requires rehabilitation to meet established standards, the Secretary would also be authorized to insure mortgages executed by the public agency or non-profit organization, with terms structured by agreement with the elderly homeowner, where the agency or organizations intends to make needed repairs to the property and then resale it to a qualified low-income homebuyer [a process similar to that currently provided in the Sec. 235 program, in Sec. 235(j)].

   a. The terms provided to a qualified homebuyer would be structured similarly to the original terms negotiated with the elderly owner.

   b. Any additional payments to be paid by the homebuyer to cover the cost of repair to the property would be incorporated in the mortgage payment and paid to the agency or non-profit organization, which, in turn, would make payment to the original owner in compliance with the terms of the mortgage.

B. Eligible Properties

1. Mortgages insured under the program must be secured by properties which are either single-family dwellings or condominium units with an appraised sales price not exceeding 90 per cent of the median sales price for existing housing in the area, as determined by HUD.

2. Properties must meet standards established by HUD, or must be capable of meeting such standards at reasonable cost to qualified homebuyers.

3. Properties must be owned outright by the owner, or have minimal outstanding liens that can be satisfied with the downpayment. HUD would be authorized to make payments to satisfy such liens where the Secretary:

   a. Waives the requirement of a downpayment by the buyer;

   b. Determines that the amount of outstanding debt, after application of the downpayment, is minimal;

   c. Determines that the elderly homeowner requires the income from the downpayment to pay for immediate housing or health-related expenses.

   Payments advanced by HUD to pay outstanding debt on a property would be recovered either by reduction in mortgage payments to the owner or upon later disposition of the property.

4. Owners of properties to be converyed with mortgages insured under the program must:

   a. Be at least 62 years of age;

   b. Have been determined to be functionally unable to perform one or more basic activities of daily living (as determined under guidelines established for the CHSP program).

   c. Require placement in a more supportive residetial environment [to include congregate housing facilities, assisted living or supportive group living arrangements, and extended care facilities (but not skilled nursing facilities)].

5. Priority among elderly property owners who apply for assistance under the program could be given to properties owned by persons:

   a. At high risk of institutionalization, but not receiving adequate supportive services in the home;

   b. Who are without a spouse or immediate family to offer direct support or to help arrange personal and financial affairs;

   c. Who have multiple functional disabilities and are over 75 years of age.

D. Eligible Homebuyers

1. Individuals or families qualified to purchase homes with mortgages assisted under the program must have incomes below 120 percent of area median income and are determined by HUD to be an acceptable risk for mortgage insurance purposes.

2. Priority among eligible homebuyers would be given to individuals or families who are involuntarily displaced from rental units due to conversions, who are first-time homebuyers, or who have not owned a home in three years.

E. Terms of Sale

1. Total payment due under the mortgage contract [the "amortized rate"] would be the amortized value of the principal obligation over a 30-year term at a rate of interest determined by HUD to adequately reflect the mortgage market.

2. Actual payments under the mortgage would be negotiated between the property owner and the buyer, with adjustment either higher or lower than the amortized rate to meet the needs of the owner, the buyer, or both parties.

    a. Payments above the amortized rate, either initially at a later time or throughout the mortgage term, would be permitted where HUD determines:

        1). The elderly owner requires higher income than provided at the amortized rate;

        2). The buyer is capable of paying higher payments;

        3). Additional payments would be reflected in a reduced term, lower subsequent payments or contributions to equity.

    b. Payments below the amortized rate, either in the initially period of the mortgage or with a graduatedd schedule over a longer period, could be provided to accommodate the lower initial income of younger buyers or to accommodate the need to make immediate repairs to the property.

3. Participating public agencies and non-profit organizations would assist owners and buyers in structuring payment terms that will provide the greatest possible benefit to both the owner and the buyer, while seeking to protect the interests of both parties.

4. The Secretary may require downpayments as part of the terms of sale of insured properties, which would not exceed 5 percent of the purchase price, but may waive this requirement, with the agreement of the owner, when the income of a potential homebuyer is below 80 percent of median income, or where the property requires immediate and extensive repairs.

5. The mortgage may include a five-year ban on resale or refinancing of a property converyed with an insured mortgage without the consent of the owner/seller.

6. The mortgage would be assumable upon resale by another qualified homebuyer.

7. If the property is sold or refinanced at any time in which the unpaid balance of any payments below the amortized rate remain outstanding, the amount of deferred payments, plus any interest (so-called negative amortization) would be added to the principal amount due on the property to the owner/seller.

G. Mortgage Processing and Closing Costs

1. The cost to local agencies and non-profit organizations of administering the program, and any costs associated with mortgage preparation and processing, shall be reimbursed by HUD, under guidelines published in regulation, in an amount not exceeding 60 percent of total costs incurred by such agency or organization.

2. Closing costs attributed to the seller (including assessment fees, inspections, possible realty fees, etc.) would be paid from the downpayment or other funds of the owner, or may be paid by HUD and recovered in later payments or upon disposition of the property.

3. Closing costs attributed to the buyer (including taxes, title fees, insurance, property inspections, etc.) would be paid by the buyer. Participating local agencies or non-profit organizations could provide assistance in meeting such costs.

H. Assistance to Homebuyers

1. HUD would be authorized to provide assistance to qualified homebuyers under the program where the Secretary determines that payments under the amortized rate, or under any lower negotiated payment schedule, are excessive for the potential homebuyer.

2. Assistance provided by HUD could be made available under one of two possible options:

   a. The current Section 235 homeownership assistance program [Sec. 235 provides direct payments to holders of mortgages on behalf of qualified homebuyers in an amount not exceeding the lesser of either a) the balance of total monthly homeownership costs (principal, interest, insurance, taxes, mortgage insurance premium) after subtraction of 20 percent of homebuyer's monthly income, or b) the difference between payments due under the mortgage and an alternative payment where the mortgage is calculated at an interest rate of one percent.]

b. A special homeownership assistance fund created for the purposes of the demonstration program, under which:

   1). Assistance would be provided when total homeownership costs (principal, interest, taxes, insurance, mortgage insurance premium) exceed 40 percent of the buyer's income.

   2). Assistance would consist of supplemental payments to the elderly owner/seller on behalf of the homebuyer up to the amount of the payment due under the mortgage after application of 40 percent of the homebuyer's monthly income.

   3). Assistance would be provided for 5 years and, with HUD's approval, could be renewed for an additional 5 years.

I. Advance Payments to Elderly Owners

1. If after the sale of a property, the elderly owner should require additional income above the amount provided in monthly payments under the mortgage to pay for increased care or service costs, HUD would be authorized to advance payments to the owner for such purpose.

2. The Secretary shall determine the level of additional payments to be made to the owner necessary to meet regular costs of care or services, or to meet any emergency needs of the owner.

3. Any payments advanced to the owner would be recovered by HUD either in later payments on the mortgage once the balance due the owner is exceeded, or upon disposition of the property upon resale or refinancing.

J. Mortgage Payments to Elderly Owners

1. The portion of all payments received by Elderly owners that represents interest on the mortgage (and that portion of any additional payments advanced by HUD representing interest) would be considered income to the owner and would be taxable under appropriate provisions of the IRS Code.

2. The owner's remaining equity in the home, represented by future payments on the mortgage debt, would not be counted as an asset for purposes of determining eligibility for assistance under HUD programs and to the extent provided in agreements with other federal agencies, for eligibility for assistance under other federal programs.

3. The amount of any payment negotiated under an insured mortgage could not be reduced below the amortized rate to a level that would qualify the owner, through such reduction in potential income from the sale, for benefits under Medicaid, SSI or a state income assistance program.

K. Property Disposition

1. In the event of the death of the elderly homeowner, HUD would be authorized to:

   a. Continue to hold the mortgage and to permit payments under the mortgage to continue to be made to the owner's heirs.

   b. To sell the mortgage, with continued payments being made to the owner's heirs.

   c. To permit the buyer to refinance the mortgage, with the outstanding balance, after adjustment, paid to the owner's heirs.

2. HUD would be authorized to recover any funds advanced to the elderly owner, or paid on behalf of the owner at the time of the sale of the property, before any continued monthly payments, or a lump-sum settlement of the mortgage, would be paid to the owner's heirs.

3. If the owner designates no heirs, or no heirs can be identified, then HUD, as co-mortgagee, would be entitled to continue receiving payment under the mortgage.

L. Program Implementation

1. The program is intended as a three-year demonstration of:

   a. The potential benefits for both buyer and seller of mutual benefit mortgage arrangements.

   b. The potential savings possible under mutual benefit mortgage arrangements in comparison to assistance provided in other forms to low-income homebuyers and physically-impaired elderly persons.

2. The HUD Secretary would be authorized to insure up to 1000 mutual benefit mortgages under the program in any fiscal year.

3. The Secretary would have discretion as to the manner in which assistance would be made available under the demonstration, providing such assistance either:

a. Through agencies and non-profit organizations located in metropolitan areas throughout the nation selected by HUD on the basis of competitive application.

b. Through agencies and non-profit organizations located broadly throughout not less than five states selected by HUD as appropriate for the purposes of the program.

4. HUD would be required to publish proposed regulations for the program within six months after the date of enactment. Final rules would be published within nine months of enactment.

5. HUD would be required to submit to Congress, at the beginning of the fiscal year following the date of enactment, a report describing the actions undertaken by the Department to establish the demonstration program, the rationale for the method selected to provide assistance under the program, and all actions to be undertaken to provide public notice of the availability of assistance under the program.

6. HUD would be required to submit annual reports during the demonstration period providing information regarding:

   a. The number and types of mortgage arrangements insured;

   b. The amount of homeownership assistance provided;

   c. Assessments of the savings realized by both elderly owners and low-income homebuyers under mutual benefit mortgage arrangements.

   d. Estimates of the benefit of mutual benefit mortgage arrangements in promoting homeownership among younger low-income families; and

   e. Assessment of potential long-term savings to federal assitance programs for the elderly.

7. Upon the conclusion of the demonstration, HUD would be required to continue monitoring mortgage agreements under the program and to provide periodic reports to Congress.

III. Summary of Program Costs

The principal costs to the federal government under the proposed demonstration program can be summarized as follows:

A. Homeownerhip assistance provided to qualified homebuyers (in amounts intended to make up the difference between 40 percent of the homebuyer's income and the negotiated payment on the mortgage).

B. Payments advanced to Elderly owners in need of additional income above the amount provided in payments under the mortgage from future payments under the mortgage (this would involve the cost of carrying any advance payments made, or any fee payments made at the time of the loan closing, until they are recovered in later payments on the mortgage or upon disposition of the property).

C. Reimbursement of eligible administrative expenses of participating local agencies and non-profit organizations (up to 60 percent of such costs).

D. Administrative costs associated with issuance of federal mortgage insurance (not offset by mortgage insurance premiums) and with general program administration and oversight.

PART V. RENTAL HOUSING VOUCHER PROGRAM CHANGES

I. PURPOSE

The proposal would expand and restructure the current HUD rental housing voucher program to improve allocation of rental subsidy assistance to qualified elderly renters and to assist the elderly in using such assistance to obtain housing that is both adequate and appropriate to their needs. The proposal is intended to address the principal concerns of advocates for the elderly that the current rental voucher program is oriented principally toward younger households, that it provides little incentive to expand the stock of affordable rental housing or to make needed improvements in existing units, and that it offers little help to older, less mobile persons in finding housing that is both more affordable and more suitable to their needs.

Major changes in the current rental voucher program would include a doubling of the number of "free standing" vouchers available to assist low-income renters each year, a specific set-aside of assistance for elderly persons and joint administration and allocation of voucher assistance set-aside for elderly households by public housing agencies and Area Agencies on Aging.

II. PROPOSALS

A. The proposal authorizes an expanded housing voucher assistance program that would provide at least 100,000 new uncommitted, or "free standing" rental housing vouchers annually to qualified low-income households.

   1. The authorization would not include vouchers allocated by the HUD Secretary for special purposes, including displacement assistance, subsidy replacement, demonstration programs and other uses established by Congress or the Secretary.

   2. Rental vouchers provided under the program would have a term of five years and could be renewed upon application to HUD.

   3. Rental voucher payments would be adjusted annually to reflect increases in general rental costs.

B. Of the total amount of new uncommitted rental vouchers authorized in any fiscal year, not less than 60 percent would be reserved for assistance to elderly individuals or to households headed by persons over age 62 [This is approximately the level of rental assistance currently received by elderly persons and households under current HUD programs].

   1. The set-aside of rental vouchers for elderly households would apply to regional and local allocations of vouchers as well as to the national program (although the Secretary would have limited

authority to adjust allocations among areas with unusually high or low concentrations of eligible elderly households).

2. Regional and local allocation of vouchers, including the amounts set aside for elderly assistance, would not include project-based vouchers allocated directly by HUD to individual housing facilities as part of special project development programs or demonstration programs, or for replacement of expiring rental subsidy contracts.

C. The rental vouchers set aside to assist elderly households in each locality would be jointly administered by public housing agencies and Area Agencies on Aging, or where such agencies do not exist by equivalent local agencies designated for this purpose.

1. Public housing agencies would continue to exercise general responsibility locally for the administration of housing voucher programs and for processing all documentation with HUD.

2. With regard to vouchers set aside to assist the elderly, however, public housing agencies would cooperate with area agencies in providing information, placement and other assistance necessary to assure that elderly persons receive appropriate housing assistance under the program. Specific areas of responsibility retained by public housing agencies in this regard would include:

   a. Maintaining a list of available low-rent housing suitable for occupancy by older persons, with information indicating any special features or available services appropriate for older persons.

   b. Providing inspections of available rental properties and periodic inspections of properties occupied by assisted tenants to assure program compliance by property owners.

   c. Processing applications for assistance (or renewals) and all other required documentation with HUD area offices.

3. Area Agencies on Aging would assist in the administration of rental voucher assistance reserved for elderly households through the following activities:

   a. Providing initial interviews with elderly persons applying for assistance, assisting in the preparation of applications for assistance, submission of necessary income verification information and providing general counseling to potential applicants regarding housing assistance and related services available within the area.

   b. Providing assessments of the physical capabilities of elderly applicants and any required structural or supportive service requirements.

   c. Recommending placement of elderly applicants in the most suitable units available to accommodate special housing or service requirements.

   d. Maintaining waiting list of eligible elderly applicants organized by housing need and priority (as permitted by HUD) to assure timely and proper placement when vacancies occur.

4. Staff of local Area Agencies would exercise such responsibilities as consultants to the local public housing agencies and as representatives of elderly clients applying for assistance. While public housing authorities retain local authority for overall administration of the program, they would be obligated, to the extent possible, to accept recommendations of area agency staff in matters relating to priorities for assistance, housing placement, service requirements and other recommendations relating to elderly applicants.

5. Activities undertaken by area agencies involving voucher assistance would be part of broader agency programs providing housing information and assistance to older persons in the community.

   a. Procedures for authorizing area agencies to provide services under the program, and to receive reimbursement for such services, would be established in regulation by the Secretary in consultation with the Secretary of HHS.

   b. The Secretary would provide for training and technical assistance in HUD programs and procedures for participating Area Agency staff.

6. The Secretary would establish in regulation a method of dividing fee payments for the administration of voucher assistance for elderly households between the two participating agencies.

D. The rental voucher program would continue to give priority for assistance to persons with incomes below 50 percent of area median income. However, in allocating assistance set aside for elderly households within this priority, additional priority would be given to persons with multiple functional disabilities that inhibit performance of daily activities and to persons who live alone with limited assistance or support of family or friends.

E. Housing considered appropriate for elderly persons assisted under the program would be units determined to be safe and well maintained and which provide appropriate access and security for older persons.

1. Such units would include single-family dwellings or separate parts of single-family dwellings, multi-unit rental facilities, group housing or shared housing arrangements, single room occupancy hotels and other units considered appropriate by public housing agencies.

2. Eligible units would include units in federally-assisted housing projects not subject to rent assistance contracts (e.g., Section 231, 221(d) projects, etc.) or unassisted units in projects receiving limited assistance under rent subsidy contracts (e.g., Sec. 236 projects).

III. PROGRAM COSTS

Estimated costs of providing an expanded rental housing voucher program of 100,000 vouchers annually would be approximately twice the cost of HUD's current program providing approximately 50,000 vouchers in the current fiscal year.

The average amount of assistance provided with each voucher has been estimated for the current fiscal year as $4,100 per year ($20,500 over the five-year contract period). Current year costs of providing 50,000 vouchers for the five-year contract period amount to $1.025 billion. At current year estimates, the proposed 100,000 voucher program would cost approximately $410 million per year, or $2.050 billion for the five-year contract period.

Administrative fees paid to public housing agencies and, under the proposal to Area Agencies on Aging, would also be twice the $25 million appropriated annually for administration of the voucher program, or roughly $50 million each year ($250 million during the five-year contract period).

PART VI. REFORM OF THE SECTION 202 HOUSING PROGRAM

I. PURPOSE

The Section 202 housing program for the elderly and handicapped has been the federal government's most successful housing initiative. It has provided approximately 350,000 units of decent and affordable housing for low-income elderly and handicapped persons in more than 3000 projects located in all parts of the country. The program has experienced only one default in the nearly thirty years since in inception in 1959 and has few projects in serious financial difficulty.

As the federal government's only remaining major housing construction program, the Section 202 program has come under increasing criticism as being too costly in its provision of both construction financing and costly rental subsidies. Federal cost containment requirements have made the housing provided under the program increasingly unattractive to potential residents and federal regulation has made projects burdensome to administer. The need for basic changes in this important housing program is generally recognized.

As currently structured, the Section 202 program involves a costly and duplicative financing mechanism through which HUD extends to project sponsors a conventional, amortized loan for the full development cost of a project, then pays off the full principal and interest payments with Section 8 subsidies. In essence, HUD is both making the loan for a project and paying itself back. This redundant payment scheme absorbs a significant amount of budget authority in HUD's budget in the year it authorizes a project and then requires unnecessarily high annual expenditures (and Treasury borrowing) to provide Section 8 subsidies over twenty years.

HUD has never attempted to address this financing problem directly. Instead, it has sought to cut costs for the Section 202 program by such means as reducing the size of units and the quality of project construction, manipulating rent schedules and annual rent increases, underfunding project operations and reserves and attempting to sell project mortgages. While reducing costs slightly, these actions have undermined the financial viability of many projects, reduced resident satisfaction and threatened the long-term availability of valuable housing assets for low-income elderly and handicapped households.

The proposal would continue to provide eligible housing sponsors with development financing in the form of direct HUD loans, but under significantly altered terms. Payment on the loan would be deferred for twenty years, after which it would either be repayable with interest to the government or forgiven over an additional twenty-year period in which the sponsor agrees to continue serving low-income elderly and handicapped persons. There would no longer be need for the sizeable Section 8 payments, since rental charges would not reflect the major cost of debt financing (which is often as much as 75 percent of Section 8 payments made to Section 202 projects). Instead, HUD would provide operating deficit payments, where necessary, to cover the difference between rent payments (which would continue to be 30 percent of income) and a significantly reduced unit rent based on project operating costs. This would represent a substantial savings annually from what would otherwise have been required to pay Section 8 subsidies over twenty years.

The reform proposal is also designed to address the design and operating problems that have plagued Section 202 projects in recent years, encouraging more innovation in design and services, as well as providing increased management flexibility. It also proposes to reduce federal expenditures by encouraging cost-reduction activities and greater cost sharing by state and local agencies and charitable organizations, by providing increased emphasis on housing rehabilitation and by encouraging greater financial involvement by potential project sponsors.

The proposal continues the current orientation of the Section 202 program of providing housing for elderly persons who are capable of living independently and of assisting only non-profit housing sponsors. It also continues the current priority of serving principally very-low-income elderly and handicapped persons.

II. PROPOSALS

A. Project Financing

1. The HUD Secretary would be authorized to enter into contracts with qualified non-profit housing sponsors to provide construction financing assistance in the form of deferred-payment loans for approved project development costs. Such costs would not included funding for costs attributed to other financing sources in the project application (see below, Project Selection).

2. Loans for project financing would be for a term of 20 years, during which no payment would be required of the housing sponsor.

3. At the expiration of the 20-year term, the Secretary would be authorized to forgive 1/20th of the outstanding balance of the loan for every year in which the sponsor agrees to maintain the project for use by low-income elderly and handicapped persons and to continue other contract agreements required by the Secretary. The debt would be forgiven in its entirety at the end of 40 years.

4. If after the expiration of the 20-year term of the loan a sponsor chooses to repay the loan and convert the project to other uses other than rental housing for low-income elderly and handicapped persons, the sponsor would be required to pay to HUD an amount equal to the full amortized value of the outstanding balance of the loan, plus "negative" amortization on interest on deferred debt payments.

B. Operating Budget and Unit Rents

1. The Secretary would be required to approve an initial annual operating budget for each project assisted under the program.

2. The annual operating budget would incorporate all "necessary and reasonable" costs of operating and maintain a project, including contributions to operating and replacement reserves.

3. Unit rents would be established for each project on the basis of a proportional distribution of annual operating costs among all units. Adjustments would be made, as currently, for larger units or for any units having special service features.

4. Unit rents would be adjusted annually to reflect the most recent data available on rents and operating costs in the market area. In approving rent increases, the Secretary would also consider the level of increase generally anticipated in the incomes of qualified elderly residents.

C. Tenant Rent Payments and Excess Revenue

1. Eligible residents of a project would continue to pay 30 percent of adjusted income for rent as currently required.

2. Rent payments by tenants that exceed the unit rent (as determined on a per unit allocation of the operating budget) would be retained by the project sponsor for the purpose of:

    a. Offsetting deficits elsewhere in the project (other unit rents, vacancies, unanticipated costs, etc.), or

    b. Funding additional operations or replacement reserves as permitted by the Secretary.

3. In projects where total rent payments consistently exceed the project's operating budget, particularly as a result of cost-efficient management, the Secretary could waive the 30 percent income-to-rent requirement for tenant rent payments to permit lower rent payments by residents of the project.

D. Operating Deficit Assistance

1. The Secretary would be authorized to enter into contracts with project sponsors to provide operating deficit payments to projects in which total rent payments are insufficient to meet annual operating costs, and the resulting deficit is not made up by other sources of revenue (see below, Project Selection).

    a. The amount of operating deficit assistance would be determined by the Secretary and would be attributable, on a per unit basis, to units occupied by tenants income incomes below 50 percent of area median income.

b. The Secretary would have the option of providing additional operating deficit assistance for units occupied by persons with incomes between 50 percent and 80 percent of median income for projects in areas determined by the Secretary to be high cost areas or which have very low area median income, or where warranted by overall project finances.

c. The total amount of deficit assistance provided could not exceed the anticipated operating deficit for the year.

d. Operating deficit payment contracts would be renewed annually and may consist, at the Secretary's discretion, of payments made either on an annual, periodic or monthly basis.

2. For projects experiencing minimal operating deficits, the Secretary may, in lieu of providing subsidy payments, permit admission to the project of elderly or handicapped persons with incomes between 80 percent and 110 percent of median income capable of paying market rate rents established by the Secretary.

   a. Eligible residents must be determined to required the services or amenities provided in the project to maintain an independent life-style.

   b. Admission of tenants in this income category could not exceed 10 percent of the total units in a project.

E. Tenant Eligibility and Admissions

1. Eligible residents of an assisted project must have adjusted incomes below 80 percent of area median income, except where otherwise permitted by the Secretary (see above Sec. D (2)).

2. Not less than 70 percent of the total number of units in a project would be occupied by persons with incomes below 50 percent of area median income.

3. The Secretary would be required to encourage admission of a larger proportion of very-low-income residents by making available sufficient operating deficit assistance to cover all units occupied by such residents, up to 100 percent of the total units in a project.

4. Additional priority in admission of income-eligible elderly and handicapped persons would be provided to:

   a. Persons with multiple functional disabilities who require the services available in the facility to maintain an independent living style; or

   b. Persons living alone with little or no public assistance or informal support from family or friends.

F. Project Size and Design

1. Application for assistance would be made by eligible sponsors for a specific number of units considered appropriate to accommodate the potential resident population identified in a market survey (but not more than the total units assigned under the program for the market area). Distinctions would be made in an application between single-occupancy and double-occupancy units (instead of the current designation among efficiency, one-bedroom and two-bedroom units).

2. HUD would establish an overall size limitation for a selected project based on the approved number of single-occupancy and double-occupancy units, plus common space amounting to 10 percent of the total proposed floor space of a project.

3. HUD would also establish overall cost limitations for the project based upon per unit construction or rehabilitation costs for the area attributable to single-occupancy and double-occupancy units and multiplied by the total number of approved units.

4. Within the broad size and cost limitations established by HUD, the project sponsor would have flexibility to adjust the style or size of units included in the project as determined desirable to potential residents in a market survey, except that all units approved double occupancy must be one-bedroom units. If determined to improve marketability, the sponsor could provide increased numbers of efficiency units, one-bedroom units or intermediate-size units. Additional common space above the 10 percent level could also be provided by reducing the size of all or some units or, alternatively, a sponsor could seek to enlarge all or some units by reducing common space.

5. The Secretary would encourage innovative and attractive design and allocation of space, except that such design must incorporate special construction design and service features required by the Secretary as necessary to meet the needs of the elderly and handicapped and must not incorporate elaborate or extravagant design features or materials.

6. The Secretary would also be required to encourage construction or rehabilitation in accordance with life-cycle, cost-effective energy conservation performance standards established by the Secretary to ensure the lowest total development and operating costs over the estimated life of the facility.

G. Project Cost Limitations

1. In estimating unit cost limitations to determine overall cost limits for a project to be developed under the program, the Secretary would take into consideration:

   a. The special design, construction and operating features required to be incorporated in housing for elderly and handicapped tenants.

b. A reasonable estimate of the necessary costs of designing, developing and maintaining a project in the market area.

c. The cost of meeting energy conservation performance standards required by the Secretary.

2. Unit cost limitations established for projects serving elderly and handicapped households would be distinct from unit cost determinations applicable to other types of housing assisted by HUD.

3. The Secretary would be required to adjust unit cost limitations established for the program not less than annually, to reflect changes in the general level of construction costs as measured by a recognized national index of construction costs [Boeckh's Index, Dodge Construction Index, etc.] selected by the Secretary for this purpose, or by a broad index of national construction costs established by the Secretary for this purpose.

H. Project Selection

1. In selecting from among eligible project applications, the Secretary would give priority to project proposals incorporating one or more of the following cost-containment features.

   a. Proposals to provide housing through rehabilitation of existing structures where the Secretary determines that program standards can be achieved through rehabilitation at lower cost than new construction.

   b. Proposals that eliminate or significantly reduce the cost of land acquisition for a project either by means of donations of land, purchases at substantially below market value, or by long-term lease either from a public agency or from private owners under "incentive" zoning arrangements required by public agencies.

      1). Any land provided or obtained must be deeded outright to the project sponsor, or in the case of a public agency, may be leased at no cost or minimal cost to the sponsor for a term of not less than 40 years.

      2). Land made available under incentive zoning arrangements, under which developers convey use of a property for low-income housing, must be leased to the sponsor at no cost for a term of not less than 50 years.

   c. Proposals to provide a rental subsidy fund, with financing provided either by the sponsor, state or local programs or other charitable sources, or a combination of such sources, to assist rent payments (up to the unit rents) of low income residents in a project. Subsidy commitments would be for a minimum proportion of units and for a duration which the Secretary would establish in regulation.

d. Proposals that provide grants or other assistance to the sponsor from public agencies, foundations or other charitable sources to fund project development costs (including project planning, design, site preparation, legal fees, etc.) which the Secretary determines are sufficient to reduce federal long term financing and deficit subsidy costs for the project.

e. Proposals involving commitment of funds and services by the sponsor, other charitable sources or public programs to provide a program of services within the project for the benefit of low-income residents.

   1) Services provided must be in addition to those required to be incorporated in the structure and routine operation of the project.

   2) Services may include transportation, recreation, housekeeping, meals, personal care or other services that may be required by residents either on a temporary or a continuing basis.

   3) Commitments of funding and in-kind services must be sufficient to meet minimal requirements for such services (both in terms of amount and duration) established by the Secretary.

2. All applications for assistance would have to incorporate at least one cost-reduction feature in the project proposal to be considered for assistance under the program. Highest priority would be given to project proposals incorporating more than one cost-reduction feature.

3. Cost reduction priorities would not replace existing priorities for the Section 202 program established by Congress or the Secretary.

4. The Secretary could waive the requirement of incorporating cost-containment features in areas with significant demand for low-cost rental housing, which have been underserved by the Section 202 program in the past or which the Secretary determines to have limited public or charitable sources of assistance.

III. PROGRAM SIZE AND COST

The program envisioned by the proposal would be approximately the same size as the current Section 202 program in terms of providing 12,000 units of specially designed housing for relatively independent low-income elderly and handicapped persons.

Given the cost-reduction and cost-sharing incentives in the proposal, it is likely that annual budget authority for the program would be considerably below the $592,661,000 provided for Section 202 in current year appropriations. A conservative estimate of the potential savings in long-term construction financing under the proposal would be from 15 percent-20 percent of current budget authority, amounting to between $90 million-$120 million annually. The actual level of program savings, however, would depend upon decisions to be made by potential project sponsors and the general availability of non-federal resources.

Considerable savings would also be realized in the change from Section 8 subsidies to deficit assistance payments. Deficit assistance payments would apply only to units occupied by residents with very-low incomes (except where otherwise permitted by HUD) and would only cover the difference between what the tenant pays (30 percent of income) and an operating unit rent, which in many instances would be 25-30 percent of the level of rents subsidized with Section 8 payments.

Deficit assistance payments could reduce per unit subsidy costs from the current average Section 8 payment in Section 202 projects of $556.50 per month ($6,678 per year) to as little as $100-$150 per month ($1,200-$1,800 per year) for very low income tenants, with payments declining substantially as resident adjusted income exceeds $5,000 a year.

On this basis, it is possible to project expenditures for subsidy assistance as approximately $16 million per year for the entire program, and $320 million during the twenty-year contract period. This represents a substantial reduction in cost from the $80 million in Section 8 subsidies provided each year under current Section 202 contracts, which amounts to $1.6 billion in total expenditure over the twenty-year contract period.

The proposal is designed to produce overall savings under the Section 202 program of approximately $1 billion in combined financing and rental subsidy assistance over the twenty-year contract term of the program. This level of projected savings assumes that the Treasury will absorb a large portion of the construction financing provided under the program to projects which maintain the low-income character of the project for the full 40-year period. The proposal has the additional benefit of providing relatively low subsidy assistance payments that would be less costly to continue after the expiration of the twenty-year initial contract period than the sizeable cost that will be required to replace Section 8 contracts under the current Section 202 program that will begin to expire in the mid-1990s.

PART VII. EXPIRING SECTION 8 SUBSIDY CONTRACTS IN NON-PROFIT HOUSING FACILITIES FOR THE ELDERLY AND HANDICAPPED

I. PURPOSE

To provide for the renewal of expiring Section 8 rental assistance contracts in non-profit sponsored facilities for elderly and handicapped persons in order to preserve such housing for use by low and moderate income residents. The proposal provides differing renewal approaches for older and newer (post-1974) facilities based on the marked difference in their subsidy arrangements with HUD. For the former, the approach is one of minimizing potential cost to the federal government of continuing assistance while providing additional funding to help upgrade facilities in need of repair. For newer projects, the proposal attempts to meet the substantial potential cost of renewing subsidy contracts in a manner designed to minimize long term federal expenditures and borrowing costs.

II. ISSUES

It is unlikely that Congress will authorize sufficient funding to extend all expiring Section 8 rent subsidy contracts in their current form. To do so would be to add significantly to the amount Congress borrows annually to fund government operations. One alternative would be to continue the current administration's policy of allowing contracts to expire, offering five-year housing vouchers where necessary and as available. The approach is clearly the least costly option for the Treasury and may provide sufficient funds, in the short term, for some older Sec. 236 and Sec. 202 projects where the loan rates are low, where only a portion of the units were actually subsidized and where "market rate" renters had been permitted. However, this approach would be clearly inadequate for newer projects that are heavily dependent on Section 8 subsidies.

The financial and tax incentives proposed in H.R. 4 to encourage owners of assisted projects to retain units for low-income use clearly impractical for non-profit sponsors of Sec. 202 elderly projects. The financial incentives proposed are wholly inadequate to replace the current rental subsidies, while the tax credits and other tax incentives cannot be used by non-profits (since syndication of a property is prohibited under Sec. 202).

Non-profit projects require some form of continued subsidy to permit continued operation for low income tenants beyond the 20-year commitment period. Some projects may require additional assistance (or deferral of loan repayments) to permit repairs needed to maintain the property in sound condition.

III. PROPOSALS

A. Expiring Sec. 8 Contracts in Older Elderly Housing Projects

1. Assistance would apply to expiring Section 8 rental assistance (conversion) contracts in older Section 202 and Section 236 projects which hold loan contracts or mortgage subsidy contracts at low interest rates (Sec. 202, 3%-3.5%; Sec. 236, subsidized to 1%), have a limited proportion of renters paying "market" rents, and have a fixed percentage of units receiving Section 8 rental assistance.

2. With respect to such projects, the Secretary would be required to provide rental housing vouchers for each unit subsidized under existing contract agreements.

3. Such vouchers would be assigned to the project, not to individual tenants, for a term of five years, and would be renewable at the owners request and continued eligibility of the project for ten additional years. The vouchers assigned to the project, and any renewals, would not be included in the rental voucher allocation set-aside for elderly assistance for the market area in which the project is included (see Housing Voucher proposals, Part VI).

4. The Secretary would also be required to provide additional assistance to qualified projects experiencing long-term operating deficits that are not corrected with the assistance provided by rental vouchers, or those in serious need of structural repair or improvement. Such assistance may be provided through any of the following actions, or any combinations of actions:

   a. Provide operating deficit assistance under Sec. 201 of 1978 Housing and Community Development Act Amendments, providing operating deficit assistance for "troubled" multifamily rental project. (Sec. 202 eligibility for such assistance would be provided in miscellaneous elderly housing amendments, Part III).

   b. Assign additional housing vouchers to the project beyond those required to replace units under existing contracts. The Secretary would be authorized to provide such assistance on an annual basis, for periods of less than five years.

   c. Defer all or a portion of a project's annual mortgage payment, where project mortgages are held by HUD (principally Sec. 202 projects).

d. Permit projects with units occupied by tenants paying market rate rents to retain the "excess revenue" from such rent payments above the base rent for units (rather than returning this amount to HUD).

5. To qualify for such assistance, and to remain eligible for such assistance, project sponsors must agree to maintain the low- and moderate-income character of the project, continuing to serve all existing residents and agreeing to retain the mix among eligible tenant income groups that had been provided in prior contract agreements.

B. Expiring Sec. 8 Contracts in Post-1974 Sec. 202 Projects

1. Assistance would apply to expiring Section 8 rental assistance contracts for projects approved by the Secretary under the revised Sec. 202 program (post 1974) in which all project units are assisted with Section 8 assistance.

2. With respect to such projects, the Secretary would be required, upon appropriate application by project sponsors, to forgive debt repayments on the insured mortgage loan for any year in which a sponsor agrees to maintain the project for use by low- and moderate-income tenants. The amount to be forgiven annually would be equal to 1/20 of the outstanding balance of the mortgage at the time of application.

3. The Secretary would be further required to contract with such sponsors to provide, in place of the full Section 8 subsidy (which covered debt repayment in addition to most operating maintenance and reserve costs) an operating subsidy representing the difference between resident rent payments (30% of income as provided in Section 8) and a smaller "operating" rent for the unit.

   a. Operating rents would be established for each unit by the Secretary upon approval of an annual operating budget submitted by the project.

   b. For projects with contracts dated prior to October 1, 1981, the Secretary would continue to permit residence by eligible tenants capable of paying market rents, which would be established by the Secretary. The amount of operating deficit payments provided to the project would be reduced by any excess revenue from such rent payments above the operating rent attributable to the units.

c. Operating budget deficit payments would continue to be paid for any year in which a project's mortgage debt payments are forgiven by the Secretary.

4. To qualify for assistance, and to remain eligible for assistance, a project sponsor must agree to maintain the low- and moderate-income character of the project by continuing to serve all existing residents in the project and to maintain the same mix among eligible tenant income groups required in prior contract agreements.

[Note: The proposal would have the Treasury absorb the cost of the amortized mortgage debt repayment, either initially for the entire debt or the annual amount for each year a project is eligible, and to provide a greatly reduced subsidy payment representing a portion of the operating budget for the project. In technical terms, the cost to the government would be similar as under Section 8--the cost of debt repayment plus operations. However, the proposal carries the advantage of reducing the higher administrative and borrowing costs over time involved with the much larger Section 8 payments. This would represent even greater savings should rising interest rates significantly increase the cost of Treasury borrowing in future years.]

C. Section 202 Operating Assistance Fund

1. The Secretary shall establish a continuing fund to provide operating deficit payments for eligible Section 202 projects receiving assistance under Part B.

2. Funding for the Operating Assistance Fund would be provided from monthly payments on HUD-held mortgages for all Sec. 202 projects with Section 8 contracts that have not reached their 20-year expiration. The fund would be established with mortgage payments for the first month of the fiscal year following enactment of authorizing legislation.

3. Amounts contained in the Operating Assistance Fund would be used only for the following purposes:

   a. Payment of operating deficit subsidies for projects with expired Section 8 assistance contracts, as provided in Part B; and

   b. Provision of short-term, below-market interest rate loans for property improvement to project sponsors receiving operating subsidies from the Fund, where the Secretary determines that sufficient excess funds exist for this purpose. The Secretary would perscribe in regulation the terms and conditions for the loans.

[Note: The purpose of the Operating Assistance Fund is to set aside funding in advance to provide continuing subsidy assistance for Sec. 202 projects. This would remove the uncertainty about the availability of continued subsidy assistance, permit long-term planning and improvement of projects and encourage most project sponsors to continue serving lower-income elderly persons for an extended period beyond the expiration of the Section 8 contract.

The proposal has the added advantage for housing policy of removing extended subsidy commitments from estimates of "new" funding for HUD programs in annual budgets and appropriations which could be subject to across-the-board cuts in budgets or appropriations resolutions. Funding of the annual subsidy agreements would constitute a technical transfer between funds, rather than requests for new funding. This would permit expenditures on behalf of existing subsidy commitments in future years without visibly increasing the number of new incremental units assisted by HUD, thus making both new assistance and subsidy replacement programs less vulnerable to reduction.

The approach does have the problem of requiring HUD to set-aside funding that would otherwise be used in the budget as a receipt to offset obligations due on Treasury borrowing to fund the HUD mortgage or other operations. This would provide a technical addition to current deficits for the purpose of reducing expenditures and likely deficits in the mid-to-late 1990s. While this may be logical, the problem of reducing current-year deficits may preclude it. An option might be to divide repayments equally between the Operating Assistance Fund and HUD's repayment account to spread the cost out over a longer period. This approach might require additional Treasury payments to supplement the Fund in future years.]

PART VIII. MISCELLANEOUS ELDERLY HOUSING PROGRAM AMENDMENTS

I. PURPOSE

A number of serious problems in HUD's processing of new projects or administration of existing facilities for the elderly and handicapped must be addressed in any comprehensive elderly housing legislation. The proposed amendments to change existing programs or HUD procedures are intended to rectify long-standing problems relating to calculation of rent increases, admission policies, unit preferences, tenant rent payments, project repair and project cancellation policies. Amendments to enhance the standing and qualifications of administrators of elderly housing facilities are also proposed.

II. PROPOSALS

A. Changes in Calculation of Fair Market Rent Increases

The proposal addresses the problems for owners of Section 202 projects created by HUD's manipulation of the fair market rent calculation process as a basis for adjusting rents (and corresponding Section 8 payments) and its delay in providing fair market rent adjustment factors for updating rents.

It would amend Section 8(c)(1) to require annual updating of fair market rents based on the most accurate data available to HUD and adjusted forward to remain current for the fiscal year.

It would also amend Section 8(c)(2) to require a separate schedule of fair market rents and adjustment factors for elderly housing facilities which would take into account any additional "actual and necessary" costs of operating and maintaining facilities with special features required to meet the needs of elderly and handicapped residents.

B. Admission Restrictions on Low Income Persons

The proposed amendment would change current law to prevent HUD from restricting all new admissions in assisted housing projects with Section 8 contracts dated after October 1, 1981, to persons with very low incomes (incomes below 50 percent of area median income).

It would continue to give priority for admission to very low income persons, but would permit admission of low income persons (incomes between 50 percent and 80 percent of area median income) in Section 202 projects and other facility-based programs up to a limit established for each program by the Secretary. Total admissions of low income persons, when combined for all HUD assistance programs, would remain below the 5 percent level required in 1981 legislation.

C. Flexible Operating Assistance for Older Section 202 Projects

The amendment would make Section 202 projects, which are at least 15 years old, eligible for operating deficit assistance under the Section 201 "Troubled Projects" operating subsidy assistance program. Assistance under Section 201 is provided in amounts determined by HUD to be necessary to help restore financial soundness or to maintain the low- and moderate-income character of a project. Currently Section 202 projects do not qualify for HUD assistance either for operating assistance or for major repair or renovation.

D. Reduction in Tenant Rent Payments for Elderly Persons in Efficiency Units

The amendment addresses the increasingly difficult marketing and financial problems for Section 202 facilities created by HUD's minimum requirements and clear priority for efficiency units. Elderly residents express resentment at paying the same rent (as a percentage of income) for efficiency units as for larger one-bedroom units and either delay entering a facility, where possible, to obtain a one-bedroom unit or move to one-bedroom units as soon as possible after initial assignment to an efficiency.

The amendment would reduce rent payments in elderly projects with Section 8 rental assistance from the current 30 percent of income to 25 percent of income for elderly or handicapped residents occupying efficiency units. The reduction in rent would apply to all persons occupying efficiency units, not just to persons moving into such units after enactment.

The proposal seeks to provide some element of choice for elderly residents between putting more of their income into housing (in the form of a larger unit) or retaining a larger portion for other uses.

E. Clarification of Section 8 Shared Housing Assistance Provisions

The amendment would change Section 8(p) to clarify that assistance provided for shared housing arrangements cannot be construed as providing a basis for requiring sharing of units by unrelated individuals in multifamily elderly housing projects, or for creating any priority for admission, either to such projects or to any type of unit within such projects, by unrelated persons willing to share a unit.

F. Limitation on Recapture of Funding Reservations for Section 202 Projects

The amendment addresses the problem created in recent years by HUD's inconsistent application of a 1984 policy memorandum requiring cancellation of Section 202 funding reservations for projects where construction had not begun, or could not soon begin within 18 months of the initial funding reservation. At the time HUD instituted this policy average processing time for Section 202 projects was 24 months, with much of the delays attributable to processing problems in HUD's regional offices. These problems continue to stall processing of projects and threaten cancellation of projects even though sponsors may have already committed considerable funds to the project.

The amendment would prohibit HUD from cancelling any Section 202 project reservation prior to 30 months following the date of the initial funding reservation and would provide automatic extensions beyond that time where the cause of a delay can be attributed to HUD's action (or inaction) or to legal action involving a project.

G. Elderly Housing Project Administrators: Status and Training

The proposals are intended to elevate the status of elderly housing project administrators as a distinct area of specialty within HUD project management, to assure proper recognition of the specialized functions and qualifications required of administrators working with frail elderly and handicapped persons, and to enhance the overall capability of elderly project administrators through increased education and training opportunities.

1. HUD would be required to maintain a separate designation for Section 202 project administrators (separate from independent fee agents) and establish separate accreditation standards and procedures for these administrators. HUD would be further required to provide training opportunities to permit current project administrators to meet these standards.

2. HUD would be prevented from imposing limits on the level of compensation paid to administrators of elderly projects which are based solely on estimates of comparable management costs if contracted for with an independent fee agent or management company. In determining the reasonableness of such compensation, HUD would have to assess whether such compensation is adequate to attract and retain the quality of full-time management needed to administer the project and having appropriate experience in assisting elderly and handicapped persons.

3. HUD would be required to accept the costs of education or training in broader issues of aging, long-term care and service provision, in addition to training in housing management, as allowable administrative expenditures for elderly housing project administrators and key staff, except that total education, training and related costs may not exceed two percent of a project's annual budget.

PART IX. ADMINISTRATION OF HUD ELDERLY HOUSING POLICY

I. PURPOSE

To provide within HUD's administrative structure and procedures a separation of supportive housing arrangements for populations with special needs from other areas of departmental activity in recognition of the distinct and specialized character of such housing arrangements and of the need for staff experienced in meeting the housing and service needs of elderly, physically disabled and mentally impaired individuals.

The proposal initiatives the process of enhancing the position of elderly and handicapped housing programs within HUD and of integrating more closely all current departmental programs and future initiatives directed toward providing supportive living arrangements for elderly, handicapped and homeless persons.

The proposal also begins the process of integrating HUD assistance for the functionally-impaired elderly more closely with assistance provided under other federal and state programs by means of improved consultation and coordination with other federal agencies and regular consultation with panels of experts. For this purpose, the proposal creates a national advisory council of recognized experts in the fields of gerontology, physical and mental disability and housing policy to assist HUD in developing and analyzing program assistance for elderly and handicapped persons.

II. PROPOSALS

A. OFFICE OF ELDERLY AND SUPPORTIVE HOUSING

1. There would be created within HUD's Office of the Assistant Secretary for Housing-FHA Commissioner a new Office of Elderly and Supportive Housing (hereafter referred to as "the Office").

2. The Office would be headed by a new Deputy Assistant Secretary for Elderly and Supportive Housing, who would be appointed by, and responsible directly to, the Assistant Secretary.

3. The Office would be generally responsible for all programs and activities within the Department pertaining to housing-related assistance to elderly, handicapped and homeless persons.

4. The Office would have staff members recommended by the Deputy Assistant Secretary, and approved by the Assistant Secretary, with expertise in providing housing for elderly and handicapped persons or providing services in residential settings. Such staff would include members at the regional offices of the Department to assure coordination of housing and service programs at the regional level.

5. The Office would have the following responsibilities:

   a. To administer existing assistance programs within the Department for the elderly, handicapped and homeless and any new program initiatives or demonstrations authorized by Congress or the Secretary.

   b. To coordinate assistance provided in other departmental programs that provide assistance to elderly, handicapped and homeless persons (including public housing, housing vouchers, mortgage insurance, etc.).

   c. To coordinate such programs or initiatives with related housing, services or other assistance programs administered by other Federal agencies or by State and local agencies.

   d. To provide for training and technical assistance for HUD elderly project managers and personnel in issues relating to the care of older persons, including resident physical and mental assessment procedures and case management procedures, and provide for training in HUD programs and procedures for staff of Area Agencies on Aging and other agencies who are involved in HUD programs.

   e. To make recommendations to the Assistant Secretary concerning research activities, demonstrations and evaluations which are undertaken or should be undertaken by the Department.

   f. To represent the Assistant Secretary with respect to issues or matters affecting elderly, handicapped or homeless housing before other government agencies, industry groups, membership associations, the Congress and the public.

   g. To coordinate, on behalf of the Department, the making of an annual report to Congress relating to housing for elderly, handicapped and homeless persons (see below, Part B).

6. The Deputy Assistant Secretary for Elderly and Supportive Housing would be designated by the Assistant Secretary within 60 days following the effective date of enacting legislation.

B. ANNUAL REPORT TO CONGRESS ON ELDERLY AND SUPPORTIVE HOUSING

1. The HUD Secretary would be required to submit to Congress, by the first day of December of each year, an annual report on housing for elderly, handicapped and homeless persons.

2. Annual reports are to include, but not be limited to, the following:

   a. A description of all programs and actions (with corresponding costs) undertaken by the Department in the proceeding fiscal year with respect to assistance provided to elderly, handicapped and homeless persons.

b. A description of additional actions undertaken or scheduled to be undertaken (with estimated costs) in the current fiscal year.

c. An analysis of the effectiveness of such programs or actions in reducing institutionalization or promoting deinstitutionalization among elderly and handicapped persons; in reducing rates of homelessness; and in providing cost savings for other federal programs.

d. An assessment of market conditions pertaining to suitable housing alternatives for elderly and handicapped persons, including estimates of availability and demand for such housing.

e. Recommendations for legislation, regulations, research or other needed actions pertaining to housing and assistance programs for elderly, handicapped and homeless persons.

C. NATIONAL ADVISORY COUNCIL ON ELDERLY AND SUPPORTIVE HOUSING

1. The HUD Secretary shall establish (as provided in Sec. 7(1) of the HUD Act of 1965) an Advisory Council on Elderly and Supportive Housing to assist in the development of departmental policy and initiatives relating to housing assistance for elderly, handicapped and homeless persons.

2. The Advisory Council would consist of not less than ten persons, at least half of which should be representatives of organizations representing the housing and broader assistance interests of elderly, handicapped or homeless persons. Additional members should include individuals with recognized expertise in fields of gerontology, physical or mental disability, housing development and finance, service delivery and social welfare policy.

3. The Advisory Council would evaluate current departmental programs and regulations, and would propose or analyze recommendations for policy changes or program initiatives.

4. The Assistant Secretary would solicit recommendations for individuals or organization representatives to serve on the Advisory Council, and would be required to designate members to the Advisory Council not later than 120 days following the effective date of enacting legislation.

AFL-CIO Proposed Housing Program

1. Housing for homeless families

   In order to meet growing needs for shelter by homeless families with children, who are often housed in hotels, at great public expense, an alternative method that would probably provide more suitable shelter at less public cost is proposed.

   That would be a program of federal grants equal to 50 percent of cost of federally approved low-cost shelters, with states to contribute at least 25 percent of the cost and the balance to come from local governments. The shelters would have to include low-cost private units with bathroom and minimal cooking facilities.

2. Low-rent housing needs

   (a) Preservation of present stock of public and private low-rent housing

   There are approximately one million rental housing units in privately owned projects whose use is currently restricted to low-rent occupancy, with federal subsidies, under a contractual agreement which will expire in coming years. Contract expirations will occur between now and 1995 for about 332,000 such units that were built under Federal 221(d)(3) and other Below Market Interest Rate and Section 236 programs. There are another 728,000 units, under Section 8, that have contract expiration dates ranging between 1995 and 2025. Many project owners may find it profitable to discontinue low-rent occupancy after the restricted use contract term expires, in order to modernize and rent the apartments at high rents; or convert the units to condominiums; or, where the land has become valuable, to sell the property to someone who would demolish it and rebuild for commercial use. In order to keep these projects in low-rent housing use to the greatest extent possible, the Congress should authorize extension of contracts for subsidized occupancy restricted to low-rent use. As an added incentive to owners to accept such contract extensions, there should be government intermediate-term loans available for major repairs and equipment renewal where it is needed.

   (b) Increased construction of new public housing and continued use of old projects

   The stock of some 1.3 million public low-rent housing units, most of which were built when construction costs were much lower, is a valuable national asset which should be preserved for low-rent use. Even where modernization requirements entail additional federal financing, the public housing projects, for the most part, entail the lowest subsidy costs for housing low-income people. That will be true especially for those projects on which the mortgage bonds have been paid off. There are now many projects in that status among those owned and run by 3,200 local public housing authorities. After the 40-year bonds have been repaid, with the help of federal subsidies, a local authority may sell a project. In addition, the Reagan Administration has undertaken a demonstration program of sale of projects to tenants. Any sales, whether to tenants or to others, depletes the economical permanent stock of public units to meet low-income needs.

The growth of unmet low-income housing needs is reflected in the growth of homelessness, which increased as the construction of subsidized low-rent housing was reduced to practically zero. It is essential that there be a return to authorizations for 50 to 100 thousand public housing units a year.

(c) Lease private units for 5 to 15 years in local markts which have a better than 3 percent vacancy rate of the size (number of bedrooms) of units needed.

There are some market areas where there are very high vacancy rates in private rental housing. In such instances, where the unit size mix is appropriate to meet local needs and the rents are relatively comparable with the monthly cost for newly built housing, leasing of units under Section 8 should be the program vehicle. For that purpose, Congess would have to authorize increased Section 8 funds.

3. Low- and moderate-income elderly and non-elderly housing needs

(a) Continue the Section 202 program of direct government loans to non-profit sponsors of housing for the moderate-income elderly and handicapped on an expanded basis.

(b) In addition, authorize a parallel program of loans to non-profit organizations to provide rental housing for non-elderly occupants whose incomes are too low to support payment of market rents. Financing for such housing could be provided under a "special assistance" program, described in number 6, below.

4. Moderate-income homeownership assistance

(a) Enact and increase support of the Nehemiah housing opportunity program (which may be enacted in the pending 1987 housing act); this program for non-profit sponsors -- modeled after the New York City Nehemiah program and the similar Boston program projects sponsored by the local Bricklayers and Laborers unions -- would allow a $15,000 government second mortgage, repayable only when the house is sold; in the New York and Boston projects, there have also been city land contributions; the extent of local land contribution would be a factor in project selection under the federal program.

(b) For moderate-income homeownership (with incomes not in excess of 130 percent of median income) expand the existing but largely dormant Section 235 program which requires owner debt service payments equal to the lower of either 25 percent of income, or what the mortgage payments would be with a 9½ percent mortgage.

5. Farm housing programs should be continued; and to the extent that new programs are made available in urban areas, there should be parallel provisions adopted for farm housing programs.

6. Private non-elderly low- and moderate-income housing should be financed through a government "special assistance" mortgage portfolio against which participations are sold.

   It would be a vehicle to finance moderate-income, non-elderly housing needs of households with incomes above eligibility levels for public housing; housing projects by non-profit sponsors for non-elderly; and authorized farm housing and moderate-income homeownership assistance programs for people who still have an affordability problem and are ineligible for subsidized low-income programs. The program might be operated by either the Government National Mortgage Association (Ginnie May), or a special new government agency created for the purpose, or for a fee by the Federal National Mortgage Association (FNMA) as a designated agent of the government.

   Under the program, households with incomes that are below a private housing affordability level would be eligible for "special assistance" homeownership loans or for occupancy in rental buildings financed with a "special assistance" mortgage. The mortgages would be available to finance only new construction homes or projects that have sale prices or rents below the median for new housing built in the local market area during the preceding year. Income eligibility and maximum sales prices and rents would all be established by HUD/FHA. All eligible mortgages would be either FHA-insured, VA-guaranteed, or insured by Farmers Home Administration. The mortgage interest rates would be established by HUD/FHA but under a statutory formula that covered the current yield on 30-year Treasury bonds plus an allowance of a fraction of one percent to cover administrative costs to the government and permitted loan origination costs, including a lenders fee of up to a stipulated amount or percentage of the loan amount. Loans could be made by approved FHA, VA, or Farmers Home Administration lenders who could then sell the loans at par to the government for inclusion in the "special assistance" portfolio. The government would from time to time sell participations in the portfolio to recoup the funds.

   Since all the loans in the portfolio will already be insured or guaranteed by a government agency, there would be very little, if any, additional costs in placing a guaranty on the participations. In fact, if the participations are guaranteed, they might be sold to yield slightly less than the mortgage portfolio, to cover the administrative costs and provide additional insurance against losses.

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NATIONAL ASSISTED HOUSING NEEDS AND RESOURCES
BACKGROUND PAPER
ON
PROPOSALS FOR NATIONAL HOUSING POLICY INITIATIVES
PREPARED BY THE AFL-CIO FOR THE CRANSTON COMMITTEE
OCTOBER 1987

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I. NATIONAL HOUSING NEEDS

In the United States the housing stock meets high standards, and has improved enormously over the years since World War II. Meanwhile, a growing and mobile population has been sheltered in housing that surpasses the standards in much of the rest of the world. Nevertheless, there are still 24 million occupied ownership and occupied rental units, representing almost 30 percent of the entire national housing stock, which are either substandard, crowded, or overly costly to their occupants. There are almost 3 million households who live doubled up with others, and there are large numbers of homeless people.

Home ownership has become a widely held status in the United States over the last several decades, giving millions of people an important economic stake in society. Nevertheless, in recent years, home ownership has been more difficult to achieve for many, due to adverse and uncertain economic conditions, and the percentage of all households owning their homes has declined. Young, first-time potential home buyers have been particularly vulnerable. Their ability to buy homes has declined.

While, for many decades, housing improved both in quality and quantity, along with the generally rising living standards of the people in our industrial society, things may now be turning around for the worse for many people, especially those at the lower income rungs of society who are not sharing the prosperity of society at large. This decline in living standards is reflected in worsening housing conditions for the low income stratum of society, including minorities, some of the elderly, handicapped, female-headed households, and others.

24 MILLION WITH HOUSING PROBLEMS

Based on its most recent comprehensive housing data, the Department of Housing and Urban Development (HUD) estimates that about 24 million households (29 percent of the total) have housing problems of one kind or another. Fourteen million, a disproportionate number of them renters, occupy units where there is an excessive cost burden. Renters are considered to be cost burdened when paying more than 30 percent of income for gross rent or housing expenses.

Another two million are in crowded housing units. A crowded housing unit has over 1 person per room used for living purposes, excluding bathrooms, halls, pantries, and so on.

Another 8.9 percent of the entire housing stock, about 7.5 million units, are physically inadequate, based on a number of measures of physical condition, including defects related to plumbing, kitchen, maintenance, public hall, heating, electrical equipment and sewage.

	Thousand Units	
Occupied Housing Units	84,842	
Excessive Cost Burden	14,425	17%
Crowded	2,230	3%
Inadequate	7,561	9%
Total with housing problems	24,216	29%

Note: The table categories are seen as mutually exclusive, although some units may have more than one characteristic as shown on the table. The inadequate units include some cost burdened and crowded units. The crowded and cost burdened units are all physically adequate, however.

Source: Housing Production in 1982 and 1983 and the Stock of Housing in 1981. Tables E-9, E-10. April 1987. Office of Policy Development and Research. U.S. Department of Housing and Urban Development.

SEVERELY INADEQUATE HOUSING

A smaller number, 2.9 million or 3.4 percent of the total occupied units, is classified as "severely inadequate." Many of these 2.9 million units are more likely than those classified as "inadequate" to need actual replacement, rather than repair. In addition, over half of these severely inadequate units are occupied by persons of very low income.

Who lives in severely substandard housing? Looking more closely at the 2.9 million units of the housing stock which are severely inadequate, it is clear that substandard housing is a social safety-net issue. Renters, the poor, minorities, women who are heads of households, and the elderly are more likely to be occupants of this worst housing than the entire population at large.

For example, blacks make up 9 million households or 11 percent of the total number of 85 million households living in housing units. Yet, blacks occupy 800,000 or 28 percent of the total of 2.9 million severely inadequate units. This dimension of housing need, showing the relative occupancy of severely inadequate housing by households of different characteristics, is shown in the table below.

Household Characteristics	Share of all housing (percent)	Share of severely inadequate housing (percent)
Renters	35	59
Very Low Income	27	57
Hispanics	5	9
Blacks	11	28
Female Head Households	28	36
Elderly	21	24

Source: Based on tabulations contained in Housing Production in 1982 and 1983 and the Stock of Housing in 1981. Tables E-9, E-10. April 1987. Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

THE HOMELESS AND THOSE DOUBLED UP

In addition to the problems of excessive cost and physically inadequate housing, there are significant numbers of homeless people in our society, and those who are potentially homeless, living doubled up with relatives or others. These people include people deinstitutionalized from mental hospitals, the unemployed, and others who can't find permanent homes, as well as those who are working, but who can't afford housing of their own and live with others. Some of the latter are young people who cannot begin their own independent lives since they cannot afford the high cost of housing.

Estimates of the number of actual homeless vary considerably, although there seems to be wide agreement that the number of homeless is increasing, and that the facilities and other resources available to serve the homeless are inadequate. Estimates of the number of homeless range from a 1983 U.S. Department of Housing and Urban Development (HUD) report, citing 250,000 to the figure of 2 to 3 million, cited by the National Coalition for the Homeless, based on recent surveys.

As the Committee for Food and Shelter recently noted, "General observations about the nature of the homeless population point to the varied backgrounds and characteristics of the population. Perhaps the only common element in their lives is the fact of their homelessness. The homeless are no longer only the Skid Row bums and the Bowery alcoholics. They are white, black, Asian, Hispanic. They are migrant workers and immigrants. They are families with children and they are runaway children. They are the unemployed, the working poor, the underemployed working in temporary or part-time jobs at minimum wage. Most have no health benefits. They are battered women, the elderly, substance abusers, and the chronically mentally ill."

There are a growing number of hidden homeless people, sometimes referred to as "couch people," since they are doubled up with friends, acquaintances, or relatives.

Earlier this year, for example, it was estimated that there were perhaps 100,000 doubled up families, including up to 200,000 children, in New York City alone.

Such estimates are backed up by national population statistics published by the U.S. Census. The census has found, for example, that there were 505,000 unrelated subfamilies living with others as of March 1986. There were over 2.2 million so-called related subfamilies, such as young couples living with parents, and mother-child families living with relatives. Altogether, there were over 2.7 million related and unrelated subfamilies. This number had roughly doubled from 1.4 million such families ten years earlier in 1976.

The number of doubled-up families, which grew by about 100 percent over the decade, grew much faster than the number of all households, which grew by only 21 percent over the same period. This is a problem which is becoming more serious. The number of unrelated subfamilies was a particularly fast growing group, as was the growth of the mother-child group, reflecting the growth in the number of the poor in the country, and the growth in the number of households headed by women.

	March 1986 (thousands)	March 1976 (thousands)
All Households	88,458	72,867
Unrelated Subfamilies	505	189
Related Subfamilies	2,256	1,190
Total Subfamilies	2,761	1,379

Source: U. S. Department of Commerce, Bureau of the Census. Series p-20, No. 412, Issued November 1986.

An additional indicator of the shortage of housing for the poor is the existence of long waiting lists for assisted housing, reflecting the growing number of the poor as well as the reliance on the existing low-income housing stock to shelter those in need of housing and the related curtailment of production under government assistance programs.

A Council of Large Public Housing Authorities survey done in the middle of 1986 showed that in a few places, the number of households lining up for public housing actually exceeds the number of units in the whole public stock: for example, New Orleans rents out 13,000 public housing units and has over 21,000 households waiting in line for them. More commonly, according to the Council, there is a several year wait for units, given the historical turnover rates, as indicated by the following data on numbers of units and applicants on waiting lists.

WAITING LISTS FOR PUBLIC HOUSING

	Waiting	Total Units
Akron	1,720	4,784
Baltimore	13,875	17,679
Buffalo	3,039	5,069
Chicago	44,000	49,155
Greensboro	1,177	2,220
Philadelphia	8,400	20,380
Pittsburgh	2,957	9,850
Sacramento	2,755	2,791

Source: Council of Large Public Housing Authorities telephone survey, July 1986.

The National Association of Housing and Redevelopment Officials (NAHRO), in the May/June 1987 issue of its official publication, estimated that more than a half million families may be on the nation's assisted housing waiting lists.

This figure includes families waiting for public housing units and Section 8 housing aid, according to NAHRO.

II. THE PROBLEM OF AFFORDABILITY

Increasingly, in recent years, more and more people have had a problem of affording decent housing. As noted in the previous section, the problem of run-down, unsanitary, and unhealthy housing has by no means been completely licked. A big culprit is now affordability. A growing share of renters pay too much for housing. Potential home owners have had problems in purchasing homes due mainly to the high interest rates and high costs in some areas during the decade of the 1980s.

Some successful program approaches have been developed to address the problem of encouraging home ownership for moderate income people, even in very high cost areas, and for providing decent rental housing to meet the shelter needs of lower income people.

MODERATE INCOME PEOPLE AND HOME BUYING

Home mortgage interest rates have declined from the peak levels of the early 1980s, making homes more affordable to many would-be purchasers. It can be estimated that for each one percentage point drop in interest rates, between one and two million additional families become capable of affording a home, all other things being equal. Mortgage interest rates dropped from the 15 percent range in 1982 to the 10 percent range last year.

The gain in affordability from lower mortgage rates, however, has been partially offset by a rise in the price of homes, including rapidly rising land prices. New home prices, for example, rose by 9 percent during the low inflation year of

1986, putting the purchase of a home out of the range of many. Affordability was further hurt by the runup in mortgage interest rates beginning in the Spring of this year. Commitment rates on conventional mortgages jumped by over one percentage point between March and May of this year. In addition, this year inflation has resumed a significant rate of increase, so that average weekly earnings adjusted for price changes, have been about one percent below a year ago. Consequently, home affordability has been reduced and the seasonally adjusted rate of new housing starts has declined significantly.

At the present time, the purchase of a home is a difficult accomplishment for many families on limited incomes, in view of the still-high level of mortgage interest rates, and the rising prices of homes. Young, first-time home buyers are particularly at a disadvantage, in view of their limited incomes.

This July 1987, the median price of a new home was $107,000 nationally. If a young family of modest income were trying to buy a home, they would have difficulty.

If, for example, a family wanted to buy a $90,000 home with a fixed rate 30-year mortgage of $72,000, (equal to 80 percent of value) at 10.5 percent interest, first they would need a down payment of $18,000. Then they would need an annual income of about $45,500 to pay the monthly mortgage debt service and the related expenses of home ownership including hazard insurance, real estate taxes, maintenance and heat, and utilities with 25 percent of their income. If they devoted one quarter of income to the purchase, only about 1 in 4 families could afford to make the $947 monthly payments, and they are already likely to have a house which meets their needs. In 1986, the national median income was over $29,000. Although nominal median incomes are higher than they used to be, younger families, first time buyers, are still more likely than others to have incomes in the lower ranges and thus are less likely to have the incomes needed to afford homes.

Thus, at present there is a gap between what moderate income home buyers can afford to pay and the cost of home ownership. It is no wonder, then, that younger households are increasingly finding themselves priced out of the market. In the course of the 1980s, the rate of home ownership for the population at large has declined, due to the severe recessionary economic conditions, lagging incomes, high interest rates, and weak economic growth. After World War II, the rate of home ownership rose steadily in the U.S. until the 1980s. The ownership rate, however, has been declining steadily since 1980-81 when it was between 65 and 66 percent. In the first quarter of 1987, 63.8 percent of all occupied housing units in the U.S. were occupied by their owners. According to the latest government housing survey, there are almost 85 million occupied housing units in the nation. If the home ownership rate were only 2 percentage points higher than at present, roughly one and one-half million more households would own homes.

The home ownership rate of younger families has particularly suffered during the 1980s, as can be seen in the attached table on home ownership rates. For example, the ownership rate of householders between ages 30-34 declined steadily from 59.3 percent in 1981 to 54.7 percent in 1985.

BRIDGING THE OWNERSHIP GAP

Two important programs show how the moderate income home ownership cost gap can be bridged: the Nehemiah program in New York City, including similar programs elsewhere, and the successful Section 235 home ownership assistance program.

The Nehemiah program in New York City combines a variety of subsidies to bridge the cost gap for moderate income home buyers in a high cost geographic area. A partnership of private and public sector participants provided a variety of types of assistance, including land and part of the financing, to reduce the costs which lower income buyers must bear to achieve home ownership. A local not-for-profit sponsor formed by church groups and public agencies at the state and local levels to produce the needed housing. The Federal housing authorization legislation for 1987 contains incentives to encourage this type of approach in the hope that it can be expanded and replicated in other places outside New York where there is need for housing, but little in the way of financial support.

Federal assistance has sometimes served to partially support such efforts to encourage home ownership by way of not for profit entities, although in indirect ways. The provision of land at below market prices by municipalities, for example, has sometimes been a crucial ingredient for success.

In the high cost area of Boston, the Bricklayers and Laborers unions formed a nonprofit housing company to build home ownership housing for lower income people, using land provided by the city and based on loans from a local bank which holds union pension funds. The $69,000 houses had 2 bedrooms, bay windows, living, and dining rooms with 11-foot ceilings. Another partnership project with the city is being built in the Charlestown Navy Yard area.

During the 1970s the Section 235 program of home ownership assistance, which was authorized in 1968, operated to provide hundreds of thousands new and existing houses to lower income families. From fiscal 1969 through fiscal 1976, for example, production under the original Section 235 program totalled almost 400,000 new and substantially rehabilitated units, of which 390,000 were new units and the remainder were substantial rehabilitations, according to the Tenth Annual

Report on the National Housing Goal published in 1979. In each of fiscal years 1971 and 1972 there were a total of over 100,000 Section 235 new construction unit reservations. Under the Section 235 program lower income home buyers were provided with interest subsidies on private loans insured by the government. Federal subsidy substantially reduced the monthly payments they made. The down payments were small and the amount of monthly payments to principal and interest were limited to 20 percent of income. As income rose, the subsidy was reduced.

The existing home program was the subject of some problems during the early 1970s and was subject to a moratorium as to new commitments under the Nixon Administration. It was reactivated in October 1975 with the release of contract authority to subsidize additional units of single-family housing and condominiums. The reactivated Section 235 program differed considerably from the old suspended program in several respects to eliminate the problems that arose under the original program. However, the overall goal remained that of widening home ownership opportunities for those somewhat below the level that could ordinarily otherwise become homeowners (95 percent of geographic area median) remained.

Important changes in the program included adjustments in income eligibility requirements; higher downpayment requirements; site limitations permitting no more than 40 percent subsidized units in any subdivision to avoid concentration of subsidized units; a reduction in the maximum amount of subsidy involved; and deletion from program eligibility of existing units not undergoing substantial rehabilitation.

Statistics gathered covering activity under the revised program for fiscal 1978, and published in HUD's 1978 Statistical Yearbook, showed, for example, that Section 235 served a diverse range of racial and ethnic groups. 67 percent of mortgagors for the year were whites, not of Hispanic origin. The rest were blacks, American Indians, Alaskan Natives, Asian or Pacific Islanders, Hispanics and others. For the year, about 50 percent of the new homes under the program were in urban locations. 47 percent were in suburban locations; the balance of about 2 percent were in rural areas. HUD statisticians classified 96.1 percent of the structure as being of excellent condition; 3.8 percent were in good condition. Low down payments have made the program accessible to lower income buyers. The average loan-to-value ratio was 92.3 percent, showing that down payments in general amounted to about 7 to 8 percent.

The program was further restructured by the 1983 Housing and Urban-Rural Recovery Act which, among other things, set up a revolving fund financing mechanism and authorized program activity based on a 10-year interest reduction subsidy. Under the restructured program, homeowners are required to contribute a minimum of 29 percent of adjusted income toward monthly mortgage payments. Assistance payments are calculated on the basis of the difference between the current FHA maximum interest rate and a minimum of 4 percent.

Actual approval of additional Section 235 units never achieved the levels of the early 1970s and the program has languished in recent years, despite the significant program modifications adopted to help the program operate more effectively. There is no new reservation activity projected for 1988.

RENTAL HOUSING FOR LOW INCOME PEOPLE

Critics of the Federal programs designed to produce rental housing for low income people point to the large number of people paying a disproportionate share of income for housing as evidence that affordability and not availability is the main problem in rental housing. Further, critics point to the high rental vacancy rate at present as evidence that there is sufficient rental housing to meet lower income peoples' needs. These arguments are true up to a point. Rental housing needs in areas where there is a large supply of vacant housing can be met through existing housing, provided that sufficient assistance through such programs as Section 8 and housing vouchers is available. To meet tight area needs, it will be necessary to build public housing and Section 202 housing for the poor and those with special problems, since the private market fails to meet these needs and since the resources of states and localities are insufficient to properly address these problems.

It should be pointed out that rental housing is not as widely available to lower income people as is generally supposed despite high vacancy rates in rental housing for the nation generally.

The rental vacancy rates for the second quarter 1986 and the second quarter 1987, 7.5 percent, were higher than any second quarter since 1967. The comparable second quarter rate was 5.0 percent in 1981 and 1979. These were low points.

At the present time, rental vacancy rates in many instances are lower than the 7.5 percent national average. In the Northeast region, for example, where the rental vacancy rate is 4.0 percent, there would be far less choice in seeking rental accomodations than in other parts of the country. So too, it would be difficult to find rental units in larger apartments, and units with low rents. The rental vacancy rate for 6-room units is 3.4 percent. It would be easier to find rental units in the South, where rental vacancy rates are 10.6 percent, due, in some instances, to overbuilding and in some other instances, to hardships based on the collapse of oil prices, and problems stemming from the agricultural sector. More abundant would be higher rent units, smaller units, and units lacking some plumbing facilities, according to vacancy rates for these types of accommodations. The rental vacancy rate of units renting for more than $500 per month is 9.7 percent. This can be seen in the statistics in the selected categories in the table below.

Selected Categories	Second Quarter 1987 Rental Vacancy Rate
United States	7.5
Northeast	4.0
South	10.6
Inside Metro Areas/with all plumbing	7.1
1 and 2 rooms in unit	10.9
5-rooms in unit	5.0
6-rooms in unit	3.4
Rent $100-$149	4.9
Rent $500 or more	9.7
Lacking some plumbing facilities	13.9

Source: U.S. Department of Commerce, Bureau of the Census. Current Housing Reports. Housing Vacancies, Second Quarter 1987. H-111-87-Q2.

III. THE NEED FOR SUBSIDY FUNDS

At the present time, a number of housing needs for those of lower income in the United States are going unmet.

Young families are increasingly finding themselves shunted aside, and not allowed to share in the American dream of home ownership. The middle class may no longer be the open, growing, property-owning segment of society that it has been in the past. Rather, society may increasingly be more polarized and home ownership a less democratic and widely-enjoyed status than is desirable.

The housing available for the poorest citizens is insufficient to meet their needs. Resources should be allocated in the future to meet the needs of these people. There is a need to deal with the potential growth of the homeless population suggested by the large number of households who live in government assisted units who are in danger of losing their apartments, by the number of people on public housing waiting lists and by the growing numbers of those who are living in crowded or doubled up living conditions.

Assistance in the years to come will have to come from all segments of society to address national housing problems, including the federal government, states and localities and the private sector.

No other sector of the economy apart from the federal government, however, has the resources to address the national housing problem and to prevent its becoming worse. And no other sector has done more to shirk responsibility for national housing problems in the past several years. Accordingly, it is appropriate that the national government lead the way in addressing the problem and to support the efforts of other governments and the non-governmental groups and individuals in meeting the needs of our citizens.

9/14/87 FP/dl

Percent of U.S. Homeownership by Age of Householder

Age	1981	1982	1983	1984	1985
Total	65.4	64.8	64.6	64.5	64.1
Less than 25	20.7	19.3	18.8	17.9	17.4
25-29	41.7	38.6	38.3	38.6	37.7
30-34	59.3	57.1	55.4	54.8	54.7
35-39	68.9	67.6	66.5	66.1	65.7
40-44	73.7	73.0	72.8	72.3	71.8
45-49	76.2	76.0	75.2	74.6	74.9
50-54	78.3	78.8	78.8	78.4	77.4
55-59	80.0	80.0	80.1	80.1	79.1
60-64	80.0	80.1	79.7	79.9	79.6
65-69	77.6	78.0	78.7	79.3	79.4
70-74	75.4	75.2	75.3	75.5	76.7
75 or more	69.8	71.0	71.9	71.5	70.4

SOURCE: *Economic News Notes*, National Association of Home Builders, January, 1986

Dear Senator

In response to your request, and on behalf of the American Institute of Architects, I am honored to submit the AIA's views on the future federal role in national housing policy.

The end of the Reagan era coincides with a growing recognition that this nation needs to reinvigorate its responses to varied even desperate housing needs that persist throughout the country. At the same time, the experience of the last six years has shown that a simple return to the path of the 1970's will not suffice. The future of federal housing policy requires not only new program approaches but also realignments in traditional relationships among all levels of government and between government and private sector. At the same time, it must be accepted that the federal government continues to bear an important housing responsibility on which the success of new approaches and new partnerships depend.

We appreciate this opportunity to participate in the important and exciting work on which your subcommittee has embarked to reshape the nation's housing future.

We look forward as well to sharing our perspective with your committee in hearings you may hold this year or next.

Sincerely,

Donald Hackl

Donald J. Hackl, FAIA
President

Toward a New Future in Housing Policy

Introduction

As the Reagan Administration nears its end, the time has come to assess the changes it has wrought on national housing policies. The American Institute of Architects believes it will be necessary to establish new legislation to guide the next administration in addressing housing needs. The purpose of this paper is to set forth what the AIA believes to be the key elements that should be included in this legislation.

The Changed World of Housing

The world of housing policy is much different today that it was on Inauguration Day 1981. Federal support for housing, either through direct subsidies or indirectly through the tax code have diminished substantially, except for the homeowners mortgage tax deduction, which continues to grow. Since 1981, housing programs administered by the Department of Housing and Urban Development and by the Farmers Home Administration have experienced cuts greater than any other domestic program area.

These cuts reflect a dramatic shift in the federal government's attitute towards the place of housing in the list of spending priorities. As the deficit has soared, and priorities such as defense have claimed greater shares of federal revenues, housing assistance in its various forms have taken a back seat.

New construction and substantial rehabilitation programs have been virtually wiped out, -- with the end of the Section 8 programs for those purposes, the end of new funding for the Section 312 rehabilitation program, the end of the GNMA Tandem Financing program, significant reductions in the Section 8 moderate rehabilitation program and the public housing construction program, and sharp cutbacks in the range of programs delivered by the Farmers' Home Administration for rural residents and farmworkers.

The historically small Section 202 program of loans for the development of housing for the elderly and handicapped is today the premier federal construction assistance program, yet it is responsible for only about 10,000 - 12,000 new units a year for the entire nation. The Housing Development Action Grant Program (HODAG) is a good effort to boost housing supplies in tight rental markets, but it is too small and produces only two units for low and moderate income people for every ten it builds.

Tax incentives for multi-family housing production, most notably tax-exempt mortage revenue bonds, syndications, and depreciation, have been curtailed. By comparison, in 1980, the federal government reserved almost 130,000 units of new construction and substantial rehabilitation under HUD programs alone.

In the place of major federal commitments to construction, the Reagan Administration and the Congress have concentrated on the existing housing stock to provide the resource for housing assistance through the use of vouchers and Section 8 certificates. Not only is the number of such units low, but their success in the marketplace presumes adequate availability of suitable housing. In addition, housing assistance in the existing housing stock cannot encourage an expanded housing supply or improve housing quality.

The Result

As federal support for housing has declined, so have housing opportunities and housing conditions. Today, as many as 7 million people pay 50 percent or more of their incomes in rent. People living in structurally deficient apartments have increased in number. Although the building industry has brought five million new multi-family units on line between 1975 and 1985, a greater number have deteriorated. As costs for housing have risen dramatically, homeownership has become barely a glimmer of hope for millions, even with reduced interest rates, and, on the average, new homebuyers pay 44 percent of income for mortgage payments.

These unfortunate results of the federal government's withdrawal from the housing field have shifted responsibilities to local and state governments and the private sector, particularly private non-profit entities. They have had no choice but to accept those responsibilities, knowing at the same time that they have no capacity to replace in full what the federal government has withdrawn. Still, in grappling with their new housing burdens, states and local governments along with important segments of the private sector have revealed themselves to be an essential resource for housing. States in particular have entered the arena in new force, and this emergence of new housing resources represents a large silver lining in the dark clouds that the administration's approach to housing has caused to gather.

Future Challenges

As we look ahead to the next administration and to the next century, we find numerous challenges that future housing policy must confront. We find a nation with large numbers of ill-housed people and communities ill-equipped to help them. Housing costs are escalating, even as over-all inflation has abated, denying homeownership to the majority of young families. Special groups, such as the elderly, the handicapped, and the displaced continue to suffer not only from the shortage of housing but also from the shortage of housing options. Lurking on the horizon is the potentially disastrous displacement of hundreds of thousands from federally-assisted buildings where assistance contracts are coming to an end.

The Future of Housing Policy - Principles

It is clear to the AIA that the experience of the last six years has not resulted in much progress in meeting national housing needs. But it has dramatically changed the nature of the debate about how progress ought to be achieved. In the context of this debate, the AIA believes that new legislation should incorporate several principles, as follows:

First, we recognize the continuing importance of a meaningful federal role in assuring decent, affordable housing in reasonable supply. The condition of housing is a national concern, for good housing provides the basis for wholesome communities, social stability, and prosperous economies. While the federal deficit may preclude a significant broadening of the federal government's housing role, it is clear that only the federal government has the financial depth to handle effectively certain forms of assistance such as long-term rental assistance.

Second, the additional responsibilities thrust on states, localities, and the private sector open the door to an excellent partnership with the federal government in addressing housing needs. As it becomes clear that funds for preserving and expanding the housing supply for lower income people will not be available in sufficient amounts from a single source, the combined resources of government and the private sector provide the only route to ensure better housing opportunities.

Third, new legislation should rest on the firm foundation of existing programs that have demonstrated success and cost-effectiveness. It is a canard that housing programs are failures. Most have worked well; some have not. All need to be reviewed periodically to ensure that they remain up to date.

Fourth, states and localities must have the flexibility to fashion responses to their particular housing needs.

Fifth, new legislation must direct itself to the broad spectrum of housing problems, both rental and homeownership, and encompass housing quality, availability, and affordability. In localities with housing shortages, concentration solely on assistance in the existing housing stock will be far less successful than a combination of such assistance and measures to boost the overall housing supply.

Having offered these principles, we should point out that there are few new ideas in housing, only old ideas whose time has come. The bottom line, as always, is cost, and the essential question is, as always, who pays? With these concepts in mind, the AIA would like to submit several ideas, some of which we believe catch the prevailing winds of this time in the history of American housing.

The Future of Housing Policy - Legislation

As a centerpiece of the new legislation, we propose that the Congress establish a national trust fund for housing. The fund should allow states and localities wide latitute in solving housing problems determined at the state and local level. Monies should be made available for both homeownership and rental housing purposes, should aid in new construction as well as rehabilitation and should permit state and local governments to offer a diversity of assistance forms, including interest rate reductions and second trusts. A portion of the trust fund's capital could come from certain existing programs, such as the HODAG and Rental Rehabilitation programs, and the remaining funds in the Section 312 Program, as the purposes of these would be assumed in the trust fund approach.

Additional funds should come from direct annual appropriations, as well as from dedicated revenue sources. Jurisdictions receiving the funds could assist renter households earning up to 80 percent of median income, and eligible homebuyers earning up to the levels permitted under the Section 235 homeownership assistance program. Allocations of trust fund monies would occur by needs-based formula to the largest communities, and to states for distribution to smaller communities, much like the Community Development Block Grant Program operates now. A principle of any trust fund program should be matching funds from private, local, and/or state sources, in order to recognize the federal government's funding limits, to extend the program's reach, and to foster the partnership that should form the basis of housing policy in this country. In addition to a trust fund concept, new legislation should:

1. Maintain the Section 202 Program for the elderly and handicapped in recognition of the special need it must fill and its overall success in filling it. In addition, new legislation should revise HUD's cost containment guidelines which restrict project quality.

2. Maintain the Community Development Block Grant and Urban Development Action Grant Programs, in light of the comprehensive development purposes of the former, and the economic development focus of the latter.

3. Target for special attention public housing in need of rehabiliation, in order to preserve this vital housing resource which consists of over a million units nationwide.

4. Expand the Section 8 moderate rehabilitation program. This program is essential to preventing or minimizing displacement that would necessarily result from substantial rehabilitation.

5. Maintain and expand the Section 8 existing housing and housing voucher programs as tools to make existing rental housing affordable for people with very low incomes. It is clear, however, that the voucher program is unsuited to housing markets beset by very high costs and low vacancy rates. In these places, the program may reduce housing costs but cannot make housing affordable.

   It is not unusual in tight rental markets for vouchers to go unused, particularly by larger families.

   Thus, vouchers and Section 8 existing housing assistance should be targeted more accurately to the areas where each program can work most effectively. In addition, assistance under these programs must continue in order to protect those whose contracts are expiring.

6. The AIA believes that steps must be taken to prevent the wholesale loss of units that were originally designed and built for low income populations under the Section 8 new construction and substantial rehabilitation programs. Units built before 1980 may get out of the Section 8 program before expiration of the full term of the Section 8 contract.

   This alarming potential problem has already received Congressional attention, underscored by a General Accounting Office study.

   Incentives must be found to encourage current and subsequent owners to retain the properties for low income residents, or the nation faces the spectre of widespread hardship resulting from displacement or the immense financial and logistical burden of subsidizing the construction of replacement housing or of aiding in the difficult process of relocation.

   Retention of these apartments could be encouraged through extension of remaining tax incentives or direct assistance in rehabilitation and in refinancing to bring down project costs.

7. Restore historic preservation tax credits for landmark properties used for low-income housing. The AIA believes that historic buildings can and should be a housing resource but since there are special costs involved in combining historic preservation with the creation of housing for people of modest incomes, it makes sense to revisit the Tax Reform Act of 1986 and its restrictions on the historic preservation tax credit. While the credit was retained, it was reduced to 20% from 25%. As a result, historic preservation activities have declined, and to the extent these endeavors entailed the incorporation of housing into preservation projects, we have lost a small but important opportunity for both expanding the housing supply and for stabilizing older areas.

While not within the legislative purview of the Banking Committee, this tax issue cannot be overlooked and should be addressed in separate legislation.

8. Do not disturb the basic features of the FHA insurance payment for homeownership. FHA works well and does not need "fixing" through new or higher fees, or privatization.

9. Finally, in this era of rapidly changing technology, the AIA believes it is important for the federal government to support basic research into buildings as complex technical systems. The federal government has sharply cut back its support of buildings research, particularly with respect to energy conservation, to the point that the United States is falling behind trading partners in the development and application of new efficient building components that life cycle costs through reduced energy consumption.

   The Department of Energy Appropriation for the building and community systems programs declined from $98,300,000 in FY1980 to $30,450,000 in FY1987.

A recent report on energy conservation appropriations noted that U.S. expenditures on buildings compare with the amounts spent on research on razor blades. The Japanese spend 3% of their construction industry sales on building research compared to 0.01% for the U.S. construction industry.

The future of American housing lies in partnership and in the pragmatic approach for problem-solving that has served this nation well for 200 years. We hope this paper will help develop legislation that advances these goals.

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STATEMENT OF
THE AMERICAN PLANNING ASSOCIATION
ON A
NATIONAL HOUSING POLICY

PREPARED FOR THE
UNITED STATES SENATE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
SENATOR ALAN CRANSTON, CHAIRMAN
SENATOR ALFONSE M. D'AMATO, RANKING MINORITY MEMBER

OCTOBER 5, 1987

Senators Alan Cranston and Alfonse M. D'Amato and the Senate Subcommittee on Housing and Urban Affairs have given this country a great opportunity -- the opportunity to rethink and redirect our national housing policy. The American Planning Association is pleased to be invited to join in this important effort.

The Federal retrenchment from support of housing programs during the past six years has, in our opinion, proven two things:

1. That Federal support is absolutely essential to meet the housing needs of low- and moderate -income households; and
2. That tremendous capacity exists at the state and local levels to design and implement creative housing programs which are responsive to local conditions, needs and opportunities.

Our new housing policy must recommit Federal resources toward housing needs, and must take advantage of the demonstrated state and local capacity to produce and maintain housing for low- and moderate-income households.

I. BASIC PREMISES

The American Planning Association's recommendations for a new housing policy are based on the following premises:

A. Decent housing in a suitable living environment is a basic human right to which all Americans are entitled.

B. The private sector is, and will continue to be, the primary provider, owner, and manager of housing; government's role is catalytic, supplementary, and regulatory, ensuring that the cumulative effect of individual housing market decisions does not deprive any segment of society of the opportunity to live in decent housing.

C. The Federal government must increase and redirect the resources which it currently devotes to housing, seeking partnerships with state and local governments and with the private sector to maximize the impact of the limited funds which can be made available.

D. A primary role of the Federal government is to address the root causes within our economic system which create the gap between housing cost and the ability to pay for so many American households.

E. It is at the state and local levels that we are best able to design and implement programs to produce and maintain housing which is affordable to low- and moderate-income households.

F. It is more cost effective to maintain existing housing and its affordability than to produce new housing.

G. Sound planning, which can coordinate the vast array of local housing programs and providers toward common objectives, is a critical ingredient of an effective housing strategy.

II. RECOMMENDED FEDERAL ROLE

Based upon the above premises, the American Planning Association recommends the following four-fold role for the Federal government in meeting the housing needs of low- and moderate-income households:

A. **Insure that very low-income households have the minimum resources necessary to afford decent housing.**

We recommend that the rental housing certificate program be retained and expanded as needed. Consideration also may be given to combining housing certificates with shelter allowances under the welfare system to provide a single more efficient and more equitable financial support program for the most needy of our society. Programs must be designed and administered such that homeless persons are not excluded from eligibility.

B. **Remove systemic incentives to speculation and overconsumption, and provide incentives for affordable housing production and maintenance.**

In its regulation and stimulation of the national economy, the Federal government must not contribute to those forces which tend to continuously drive up the cost of housing. To the contrary, steps should be taken to stimulate construction and maintenance of affordable housing. We recommend the following as the types of taxation and regulatory actions which should be taken to support a new national housing policy:

1. Extend the tax benefits of homeownership to lower income homeowners by allowing the taxpayer to choose either the full homeowner deduction or a partial tax credit for mortgage interest and property tax payments.
2. Remove the homeowner tax deduction for second homes.
3. Extend the straight-line depreciation period for rental property.
4. Permit depreciation allowance for owners of 5 or more rental units only if they submit every 3 years a certification from a local government, or, in the absence of local capacity, from a licensed engineer or architect that the units comply with a model housing code recognized by the Council of American Building Officials; and only if they submit evidence upon sale that tenant associations were given the right of first refusal to purchase.
5. Establish a high capital gains tax for short-term resale of rental property which declines on a sliding scale to the present capital gains tax rate as the length of ownership increases.
6. Remove impediments to utilization of the low-income housing tax credit.
7. Classify tax exempt revenue bonds used to finance housing for low- and moderate-income households as essential function bonds, thereby eliminating the provisions which subject such bonds to state allocation caps and to the Alternative Minimum Tax.
8. Provide controls and incentives in regulation of credit institutions to insure that an adequate share of private credit continues to be directed toward construction and rehabilitation of affordable housing.
9. Reject all proposals to privatize the Federal Housing Administration and Federal agencies which provide a secondary market for housing finance.

C. **Preserve the affordability of existing Federally subsidized housing.**

The current policy of the Federal government is to divest itself of a direct role in producing and managing low-income housing. This withdrawal should not be so precipitous as to threaten the existing stock of housing for low-and moderate-income households. Furthermore, we should not allow the 1.4 million units of housing which are currently available to needy households through HUD-assisted programs, such as Section 8, Section 221(d)(3) and Section 236, to disappear as private developer contracts expire. Therefore, we recommend that the Federal government:

1. Sell no existing public housing project until a thorough study has demonstrated that the financial and management capability will exist to assure the long-term availability of such units to tenants similar in income to present tenants. Existing public housing should be modernized and rehabilitated before it is turned over to a local government, a tenant association, or a nonprofit organization.

   If turned over to a tenant association, the Federal government should assist in the formation of a limited equity co-op or mutual housing association to guarantee the long-term affordability of the units.

2. Require all private owners of existing Federally subsidized housing to provide a six-month notice to tenants and to local government of their intent to convert the units to market rate housing and to give the right of first refusal to purchase the property to the building's tenant association, a local government, a public authority, or a nonprofit organization. If displacement should occur, the private owner should be required to provide relocation assistance.

   In addition, the Federal government should provide the financing and technical assistance which may be needed to create a viable limited equity co-op or mutual housing association to guarantee the long-term affordability of the units.

D. Delegate to state and local governments the responsibility and resources to produce and maintain affordable housing.

During the past six years, state and local governments have valiantly attempted to fill the void created by the withdrawal of the Federal government from housing programs. The vast array of creative programs fashioned by public and nonprofit agencies to meet the specific needs of their constituencies has demonstrated that housing production and maintenance programs are most effectively designed and implemented at the state and local levels. Moreover, it is at the local level that authority rests for the regulation of housing production and maintenance, through tools such as subdivision ordinances, zoning codes, development and design standards, and code enforcement.

The existence of public and private agencies which are implementing effective housing programs at the state and local levels offers an unprecedented opportunity to leverage limited new Federal funding to maximum impact. We, therefore, recommend two new incentive housing block grant programs, to states and to local governments, as follows:

1. Create a new state incentive housing block grant program.

   A portion of the funds should be allocated to every state based upon relative need. The remainder of the funds, which should become the major portion of the block grant program over time, should be allocated on an incentive basis to states to the extent that they have raised matching funds for low-and moderate- housing through mechanisms such as state housing trust funds, general obligation bonds, or general fund appropriations. (It is recognized that direct Federal support will be required to meet the housing needs of low- and moderate-income Native American households residing within Indian reservations and villages, and may be required to meet the housing needs of rural households through a strengthened Farmers Home Administration.)

2. Expand the Community Development Block Grant (CDBG) Program.

   The CDBG program should be expanded to include a local housing block grant element which would provide additional funds to match funds raised locally for low- and moderate-income housing. The expanded program might be called the Housing and Community Development Block Grant Program, reflecting a requirement that the major portion of the total funds (say, not less than 70 percent) be devoted to housing for low-and moderate-income households. As with the present CDBG program, funds should be allocated directly to metropolitan cities and urban counties, and through the states to smaller cities.

3. Permit state and local governments to directly utilize housing block grant funds, or to allocate them to private and non-profit housing developers and to housing authorities, for a wide range of activities which benefit housing for low- and moderate-income households. Included would be grants and loans for construction, rehabilitation and improvement of housing, home ownership and rental assistance, code enforcement, provision of emergency shelter and technical assistance/seed money for non-profit community based sponsors. Block grant funds should be allowed to be combined with other housing funds, as in the provision of "gap financing" to leverage bond proceeds and conventional financing.

4. Require each state or local recipient to prepare and adopt a housing plan before the incentive funding is released, and to update such plans at five-year intervals. The proposed planning process is intended to direct the expenditure of limited funds to the most effective actions, to coordinate the vast array of public and private actions toward common objectives, and to provide a mechanism for public participation and review. The state plan should contain sub-plans by market regions, which could be prepared by or in cooperation with existing regional planning agencies. All plans should be part of and/or consistent with the comprehensive plans for each jurisdiction. Each plan should address, at a minimum, the following:

   a. Analysis of current housing problems and issues, including gaps between supply and demand, mismatches between cost and ability to pay, overcrowding, and physical condition.

   b. Long-range forecast of housing demand by type and price range. These forecasts should take into account a fair-share allocation among communities of housing for low-and moderate-income households. The fair-share approach should be developed as part of the state plan and be incorporated in a consistent manner in all local plans.

   c. Estimate of specific housing needs during the next five years to serve all segments of the population, including low- and moderate-income families, the elderly, the handicapped, and the homeless. The estimate should include a reasonable commitment toward meeting the long-range fair-share allocation.

   d. Analysis of obstacles to development, maintenance, and improvement of housing for low- and moderate-income households, including local land use and building codes, cost and availability of mortgage loans, lack of developable land, etc.

   e. Long-range goals and short-range objectives. The objectives should be in the form of specific, quantified (where possible) targets for the next five years.

   f. Recommended action strategy. The set of recommended actions to achieve the five-year objectives should be specific as to responsible agency, funding source, and targeted output.

g. Citizen participation. The process and products of citizen participation in preparation of the plan should be documented.

h. Displacement and other negative impacts. The plan should seek to minimise and/or mitigate its effect upon displacement and its other negative impacts upon the overall environment. It should include an adequate relocation assistance program.

ABOUT THE AMERICAN PLANNING ASSOCIATION

The American Planning Association (APA) is a national organization of 21,000 members, including public and private planners and elected and appointed officials at all levels of government as well as educators, students and interested citizens. APA members belong to 45 chapters covering every state and Congressional district. They can also belong to 15 divisions focusing on such functional areas as Housing and Human Services.

The primary objective of APA is to advance the art and science of planning for the improved development of the nation and its states, regions and communities.

APA was formed in 1978 through the consolidation of the American Institute of Planners, founded in 1917, and the American Society of Planning Officials, founded in 1934.

Within APA is the American Institute of Certified Planners which focuses on professional development. Members of AICP are distinguished by having met experience requirements and by having passed an examination on planning principles and practices.

The American Planning Association and its chapters have wholeheartedly supported legislation at the national and state levels to make housing affordable for all Americans and, in particular, for low- and moderate-income families.

APA's research activities have also been directed towards providing state and local governments with practical measures that they can adopt to increase the affordability of housing. In recent years, APA has developed and disseminated information on such topics as:

Planning Agency Ideas for Encouraging Low- and Moderate-Income Housing. 1977.

Integration in Housing: A Plan for Racial Diversity in Two Villages. 1978.

Inclusionary Zoning Regulations: An Update. 1980.

Low- and Moderate-Income Housing: Part 1. Increasing the Supply and Accessibility. 1980.

Low- and Moderate-Income Housing: Part 2. Conserving What We Have. 1980.

Accessory Apartments: Using Surplus Space in Single-Family Houses. 1981.

Zero Lot Line Development. 1982.

Changing Development Standards for Affordable Housing. 1982.

Increasing Housing Opportunities for the Elderly. 1983.

Affordable Single-Family Housing: A Review of Development Standards. 1984.

Shared Housing: An Affordable Alternative. 1985.

Inclusionary Zoning Moves Downtown. 1985.

Regulating Manufactured Housing. 1986.

* * *

This statement on National Housing Policy was prepared by a Special Committee of the American Planning Association and was reviewed and commented upon by its Board of Directors, its Chapter Presidents and its Division Chairs.

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10/87

AN EVALUATION OF THE NATIONAL MANUFACTURED HOUSING CONSTRUCTION AND SAFETY STANDARDS ACT OF 1974, 42 U.S.C. 5401 et. seq. AND THE HUD REGULATIONS IMPLEMENTING THE ACT 24 C.F.R. §3280, THE CONSTRUCTION AND SAFETY STANDARDS AND 24 C.F.R. §3282, THE PROCEDURAL AND ENFORCEMENT REGULATIONS

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AN EVALUATION OF THE NATIONAL MANUFACTURED HOUSING CONSTRUCTION AND SAFETY STANDARDS ACT OF 1974, 42 U.S.C. 5401 *et seq.* AND THE HUD REGULATIONS IMPLEMENTING THE ACT 24 C.F.R. §3280, THE CONSTRUCTION AND SAFETY STANDARDS AND 24 C.F.R. §3282, THE PROCEDURAL AND ENFORCEMENT REGULATIONS

FOREWORD

The National Manufactured Housing Construction and Safety Standards Act of 1974, 42 U.S.C. §5401, *et seq.* ("Act") (Attachment 1), was implemented by Construction and Safety Standards and Procedural and Enforcement Regulations promulgated as of June 15, 1976 (Attachment 2). In the ensuing ten years, approximately three million manufactured housing units have been produced by the industry. It is appropriate, therefore, to consider the effectiveness of the regulatory scheme at this juncture. This analysis will attempt an evaluation, admittedly from the standpoint of the producers of manufactured housing. Most of the data used is based upon examinations of records and documents within the custody of the Department of Housing and Urban Development and the records of private companies.

By the early 1970's production of mobile homes had risen to 566,920 units per year. Production and sales, however, have never again reached such a high level. Indeed, since the enactment of the Mobile Home Act, production has been nearly static, without any appreciable increase.

Both industry and the public joined in supporting the adoption of the 1974 Act. The industry saw the preemption provision of the Act as a possible solution to expensive and time consuming efforts necessary to comply with multiple building codes in the states and local jurisdictions. There also had been consumer complaints regarding some industry products. These influences encouraged Congress to establish a nationwide building code for mobile homes. The original Construction and Safety Standards were essentially similar to the American National Standards Institute ("ANSI") Standard A119.1, which had been developed jointly by various voluntary standard agencies. (Attachment 3.)

Both ANSI A119.1 and the new HUD Code incorporated by reference thousands of standards for materials and components, as did the building codes of the individual state and subordinate entities. Consequently, the Construction Code was published by HUD in December of 1975 with the understanding on the part of both industry and the Department that the regulations were not the last word, but rather that they represented an evolving scheme which would be modified from time to time as needed. The Procedural and Enforcement Regulations particularly were recognized as being awkward and in need of revision. The latter regulations, for example, have never distinguished between major, substantive, or significant deviations from the Code and insignificant deviations which do not affect the quality, durability, or liveability of a home. Furthermore, it was generally recognized by all concerned that mobile homes were affordable housing for low and middle income Americans, and that this feature had to be maintained at all costs. Attached are copies of the Act and the aforesaid implementing Regulations.

BACKGROUND AND ENACTMENT

A. Overview

> 'Manufactured Home' means a structure, transportable in one or more sections, which, in the traveling mode, is 8 body feet or more in width or 40 body feet or more in length, or, when erected on site, is 320 or more square feet, and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air-conditioning, and electrical systems contained therein; except that such term shall include any structure which meets all the requirements of this paragraph except the size requirements and with respect to which the manufacturer voluntarily files a certification required by the Secretary and complies with the standards established under this title.

The National Manufactured Housing Construction and Safety Standards Act adopted this definition of a mobile home, now called a manufactured home, 42 U.S.C. §5401. Composing the definition of a mobile home was a difficult task. Mobile homes have long been confused with recreational vehicles and travel trailers. Indeed, many of the companies now producing manufactured homes developed in the 1930's as producers of travel trailers as well as mobile homes. Furthermore, at one point in the development of the manufactured housing industry, the same national trade association represented both recreational vehicles and manufactured housing. By trial and error, however, manufacturers of mobile homes have evolved a design and plan for housing units built entirely inside factories which may be transported without damage to the home site.

This uniquely American approach to the problem of housing, particularly in rural areas, has solved a need for housing which exists throughout America. Consequently, the demand for manufactured housing rose dramatically from an annual production level of approximately 1300 units per year in 1930 to approximately 100,000 units per year in 1960. By 1966, approximately 200,000 units per year were shipped. In the period 1968 through 1973, the shipments never slipped below 300,000 and rose as high as 576,000 in 1972. In 1974, however, production dropped to 329,300 and in 1976 to 212,690. Since the adoption of the Mobile Home Act, production has never again risen above 300,000.

The sudden decline in sales in 1974 and 1975 resulted in a decrease in the number of manufacturers from approximately 330 to approximately 220. The number of manufacturing plants also declined from about 800 to 500 during the same period. Today, there are no more than 170 mobile home manufacturers in the United States with approximately 400 manufacturing facilities.

The manufactured housing industry has demonstrated a genuine concern since its inception that its products be manufactured to acceptable levels of safety and quality. During the early 1950's, the industry trade association instituted a long-term program of self-regulation in an effort to implement a recognized national construction code. Subsequently, in the late 1960's, with the assistance of the National Fire Protection Association (NFPA) and the American National Standards Institute (ANSI), the A119.1 Standard for mobile home body and frame design and construction was published. In the states which adopted ANSI A119.1, the manufacturers were provided technical assistance through trade association experts knowledgeable of the standard. While pursuing this type of voluntary self-regulation, the various manufacturers also promoted enforcement legislation in each state where homes were produced and shipped.

By 1972, 36 states had adopted the ANSI A119.1 standard. Many of these states, however, did not have the resources necessary for effective enforcement. Similarly, because the ANSI standard was not mandatory in all states, because problems of upgrading legislation in each state were sizeable and, finally, because many states exercised different levels of enforcement of the same standard, the mobile home industry supported the development of a pre-emptive national standard.

The significance of a single national standard can best be illustrated by remarks placed in the Congressional Record on behalf of the industry in response to an inquiry by Senator Brock, one of the sponsors of Senate Bill 3604 in 1972.

> A single standard for mobile home construction will allow manufacturers to market their products on a national basis without having to build to a variety of state and local standards. If states are permitted to promulgate standards which differ or exceed a Federal standard they are, in effect, forcing manufacturers to build as many different products as there are states. A single standard will allow producers to make a universal product. This approach accommodates the elimination of costly production line changes which otherwise add to the cost of the home. A preliminary benefit of any standardization is the resultant reduction of unit cost. Any Federal standards should seek to realize and pass this benefit to the home buying public. (Cong. Rec. S.7782, May 15, 1972). (Emphasis added.)

Senator Brock thereupon noted: "Rather than face a myriad of State requirements and regulations with varying inspection and enforcement procedures, a uniform code will offer the consumer a quality, reliable product wherever he purchases." (Id.)

Although both the industry and Congress thus recognized the need for a uniform code of standards in the early 1970's, confusion still prevailed over the nature and status of mobile homes as homes rather than vehicles. Terminology was used in early bills proposing federal mobile home regulation which was actually better suited to travel trailers, recreational vehicles, campers, and even automobiles. In part, this identity problem stemmed from the fact that manufactured housing was considered by some states and the Federal Trade Commission to be personal property rather than real property, even though the home was affixed to real property, and never moved again. Indeed, to this date, the public remains confused about the very different engineering and purposes of mobile homes, recreational vehicles and travel trailers.

The practical impact of this type of confusion is evident from the remarks of Representative Louis Frey of Florida on May 2, 1972 introducing the first Bill in the House of Representatives addressing the regulation of the mobile homes industry, H.R. 14716: "The legislation which I offer today is modeled to a certain extent on the Motor Vehicle Safety Act of 1970. . . ." (Cong. Rec. H.3985, May 2, 1972.) Similarly, of the four House Bills introduced in 1972 regulating the production of mobile homes, two provided for a standard regulating both recreational vehicles and mobile homes under the same Bill. When the House failed to support mobile home legislation in 1972, however, Representative Frey introduced an amended version of this Bill, H.R. 5224 in 1973. Unfortunately, the misconception of mobile homes as vehicles was continued by this legislation, which treated recreational vehicles as part of the mobile home industry and relied upon the National Traffic and Motor Vehicle Safety Act of 1966 ("Motor Vehicle Safety Act"). Consequently, with the exception of minor variations, the present Act was substantially derived from identical sections of the Motor Vehicle Safety Act. (Attachment 4.)

Sections 602 and 604(a) of the Act, for example, were taken directly from the Motor Vehicle Safety Act. Compared below is the language of the "Purpose" section of the Motor Vehicle Safety Act of 1966 and the Statement of Purpose to HB14716 and SB3604.

> . . . That Congress declares that the purpose of this act is to reduce the amount of insurance costs, property damage, personal injury, and death resulting from mobile home accidents without any substantial increase in the retail price of mobile homes. Therefore, Congress determines that it is necessary to establish practical Federal safety standards for mobile homes in interstate commerce; to authorize mobile home safety research and development; . . . (HB14716)

* * *

> Congress hereby declares that the purpose of this chapter is to reduce traffic accidents and deaths and injuries to persons resulting from traffic accidents. Therefore, Congress determines that it is necessary to establish motor vehicle safety standards for motor vehicles and equipment in interstate commerce; to undertake and support necessary safety research and development; . . . .

15 U.S.C. §1381.

Similarly, Section 603 of the original Senate and House Bills read as follows:

> The Secretary shall establish by order appropriate Federal mobile home safety standards. Each such Federal mobile home safety standard shall be practicable, shall meet the need for mobile home safety, and shall be stated in objective terms.

This language is almost identical to Section 1392 of the National Traffic and Motor Vehicle Safety Act, which reads:

> The Secretary shall establish by order appropriate Federal motor vehicle safety standards. Each such Federal motor vehicle safety standard shall be practicable, shall meet the need for motor vehicle safety, and shall be stated in objective terms.

15 U.S.C. §1392.

Despite the fact that The National Manufactured Housing Construction and Safety Standards Act was patterned upon the Act regulating Motor Vehicle Safety, both of its sponsors, Representative Frey and Senator Brock, wished for mobile homes to be treated as housing. (See Congressional Record H.3985, May 2, 1972; Congressional Record S.7782, 7783, May 15, 1972.) This emphasis coincides with the express purpose of the Act "to establish minimum uniform safety standards." This phrase is virtually identical to the "purpose" section of the One and Two Family Dwelling Code which states:

> The purpose of this code is to provide minimum standards for the protection of life, limb, health, property environment and for the safety and welfare of the consumer, general public and the owners and occupants of residential buildings regulated by this code. (1979 Ed., Chapter I, Section R-102-Purpose.)

This language, moreover, is substantially the same as that used in the "Purpose" section of the Uniform Building Code and the Southern Building Code.

Although the sponsors of the Act believed that mobile homes should be treated as housing, there was contrary sentiment expressed in both the Senate and the House. During 1972, for example, Senator Thomas Eagleton attempted to amend the Food, Drug and Consumer Product Safety Act to include the manufacture of mobile homes because such homes ostensibly were a manufactured product which might endanger lives. In early 1973, Representative Moss of California and Representative Eckhart of Texas, attempted to clarify the scope of the Consumer Product Safety Act to include mobile homes and recreational vehicles as consumer products. These attempts to amend Senator Brock's Bill, however, failed.

The consequences of the misconceptions engendered by these efforts are still being felt today. HUD has made statements both formally and informally which would tend to show that the employees charged with administering the Act believe that mobile homes may be classified as "dangerous" products. Indeed, as the federal mobile home inspection system has been expanded, reference has constantly been made to the Act's Statement of Purpose which seeks "to improve quality and durability," as well as to the language of Section 604(a), which provides that standards shall meet the "highest" standards of protection taking into account existing state and local laws. This language was introduced by Senator William Proxmire on October 4, 1973 in S.2538. However, the intent of this language, which remains in the mobile home legislation, is not clear until the legislative history of Senator Proxmire's Bill is considered. The phrase "to improve quality and durability" was based upon Senator Proxmire's analogy of mobile homes to motor vehicles. In his statement to the Senate supporting S.2538, Senator Proxmire stated:

> Automobiles are now subject to Federal safety regulations. There are some similarities between a mobile home and a car: both are built for interstate sale; both are sold on conditional sales contracts; both can have defects stemming from design and bad workmanship. But now forced recalls are mandatory on cars with defects. Not so for mobile homes. The fact that both automobiles and mobile homes both use the highways

> is not a demanding similarity because the homes are meant to be semipermanently situated. Recreational vehicles are not covered by this legislation because they are on the move and are not used normally as permanent housing.
>
> The purpose, then, of the legislation being introduced today is to improve the safety and durability of mobile homes, and thus reduce deaths, injuries, property damage and insurance costs connected with the design and construction of mobile homes. (Cong. Rec. S. 18594, Oct. 4, 1973.) (Emphasis added.)

Whether or not Senator Proxmire believed that mobile homes and automobiles were similar, the Statement of Purpose of S.2538 was followed by a statement which provided: "mobile homes will be supplied with a minimum warranty to insure adequate levels of quality and durability in mobile homes." It is a fair inference, then, that when Senator Proxmire spoke of improving quality and durability in mobile homes, he recognized that that phrase should be considered in terms of assuring adequate levels of quality and durability as the phrase was used in building codes. Senator Proxmire stated that standards to improve the level of mobile home safety, quality and durability to adequate levels would be based on research, testing, and evaluation conducted during the first year after the enactment of the legislation. (Cong. Rec. S.18594, October 4, 1973.) He further stated that in setting such standards, the Secretary "would consider, . . . whether any standard he set would increase the cost of owning a mobile home beyond the value of the expected benefits to the public." (Id.)

When the final Bill was enacted, Senator Proxmire's provision for a minimum warranty to ensure adequate levels of quality and durability was deleted, while the language that the purpose of the Act was to "improve the quality and durability of mobile homes" remained. Thus, if read outside of the context of its original meaning, the present language in the Statement of Purpose, "to improve the quality and durability" can be interpreted as a clear directive for HUD to periodically upgrade the The National Manufactured Housing Construction and Safety Standards Act without statutory limitation. This interpretation is favored by HUD personnel, regardless of whether current levels of quality and durability are adequate and acceptable, and regardless of whether they are equivalent to existing standards for site-built homes. Such an approach discriminates, however, against manufactured housing because it ignores the original Congressional intent that any standard developed be reasonable, needed, and cost beneficial to low income consumers. 42 U.S.C. §5403(f). It is precisely for this reason that industry has objected to the enlargement of the inspection and quality control system and the constant pressure from HUD to improve quality and durability to meet the absolute highest standards. It is obvious, then, that some action is needed to dispell the confusion which has been engendered by the unconscious comparison of mobile homes with motor vehicles in the original legislation.

The use of the term "highest standards of protection" must itself be understood in the context of the legislative history of the Bill which was ultimately adopted. When Senator Proxmire's Bill S.2538 was introduced on October 4, 1973, there was a provision under Section 4(d) stating "nothing shall prohibit state or political sub-divisions from establishing a construction and safety standard that is identical to or more stringent to the federal standard." Senator Proxmire was particularly concerned about federal preemption because he believed that Wisconsin had "recently passed a strong law which promise[d] to increase "mobile home safety." (Cong. Rec. S.18513, October 4, 1973). Thus, when Senator Brock in his statement said "these standards shall meet the need for mobile home safety, durability and quality and shall meet the highest standards of protection, taking into account existing state and local laws" (Cong. Rec. S.22341, December 19, 1973) (emphasis added), it was obvious that the language was included so that the federal standard would meet the highest of local standards then in place, not the highest conceivable building standard.

The term "highest standards" was included in Section 604(a) of the Act to ensure that the standards developed during the first year after passage of the Act would be at least as high as existing state standards at that time. The term "highest standards" must be considered in the context of the state and local laws being enforced at the time the Act was passed. Following implementation of a pre-emptive federal standard, adoption of additional more stringent state or local laws was prohibited. The "highest standard" language was not meant to drive construction codes into super-safe functional levels, but was instead intended to ensure that the federal code was at least as high as any existing state code.

Failure to clarify this language will result in future misinterpretations by HUD employees and HUD's contract agents as to the intent of Congress with respect to HUD's direction to establish standards. If such a direction is interpreted as establishing a goal that mobile homes be built to eventually meet the highest possible building standards, mobile homes cannot and will not meet the need for low cost, affordable housing in America. Such a standard, moreover, would discriminate against manufactured housing, insofar as site-built homes are not subject to ever more rigorous and unrealistic standards.

B. Research, Development, Testing and Evaluation

Although HUD is now engaged in enlarging its research, testing, and evaluation functions, the original intent of that portion of the Act which refers to research and testing was far different than is now being asserted. (Cong. Rec. S.18594, Oct. 4, 1973.) It was the intent of Congress that research, testing and evaluation be conducted primarily during the first year after passage of the Act. (*Id*.). Additional research, testing, and evaluation was to be conducted as necessary to ensure minimum standards of safety, quality and durability meeting reasonable levels of protection considering relative costs. Research and development were not to be conducted for the sake of mere inquiry, nor to maintain the quality and durability of homes beyond a reasonable level. The quality and durability language of the Statement of Purpose, however, has led to unnecessary and excessively costly inspections and needless standard-making on the part of HUD.

C. The Availability of Affordable Housing

The industry is concerned that manufactured housing continue to be produced in a cost-effective manner so that this source of affordable housing will be available to all Americans. In this respect, it is interesting to compare the spiraling cost of conventional housing to that of manufactured housing. A large number of American families are currently unable to purchase a conventional site-built house. Manufactured housing, however, has remained affordable and available for low and moderate income families. It is estimated that approximately 250 man-hours are required to build a manufactured home on a production line which runs day and night as long as needed and is invulnerable to the weather. Due primarily to this production efficiency, the average sales price of a manufactured house can be one-fourth or one-fifth the average sales price of a site-built home. In 1980, the average cost per square foot for a manufactured house was $17.80, although site-built homes had risen to $36.00 per square foot. The United States Department of Commerce indicated that in 1979, the average cost of a manufactured house was $17,600 compared to the average price of a site-built home of $71,900. These figures rose in 1981 to $19,000 and $88,300, respectively, and to $21,500 and $97,600 in 1984, $21,800 and $100,800 in 1985 and $22,400 and $111,900 in 1986. Thus, approximately 80 percent of the houses sold for under $40,000 in the United States are manufactured in factories.

D. Conclusion

The National Manufactured Housing Construction and Safety Standards Act of 1974 has been successful in ensuring that mobile homes are built to levels of quality, safety, and durability equivalent to or better than conventional homes. At the time that federal mobile home safety legislation was first considered by Congress, the safety, quality and durability of mobile homes had been criticized. Any such legitimate criticism has now been remedied through application of the Act. Unfortunately though, unfair and uninformed criticism continues today, based in part, on the argument that purported inadequacies of the ANSI standard were incorporated into the HUD standard. But, as noted earlier, the greatest inadequacies of the ANSI code consisted in state enforcement procedures, rather than the substance of the code itself.

The most comprehensive summary of the state of the art in mobile home design and construction was made by Dr. Arthur Bernhardt in 1978, in his report to HUD, "Building Tomorrow: The Mobile/Manufactured Housing Industry," MIT Press, Cambridge, Massachusetts, 1978:

> The mobile home from an engineering point of view, is a more sophisticated structure than the conventional home. It is engineered to satisfy the same loading conditions of a conventional home while selling at a fraction of the cost. At the same time, it must meet the greater, sharper, and unpredictable, dynamic conditions caused by over-the-road movement.

* * *

> The claim that the mobile home is of inferior construction is not justified. The basis of this claim is caused by a one-to-one comparison of structural members in a conventional home and a mobile home. Such a comparison, however, is meaningless because of the difference in structure design principles used. Mobile home design principles are more efficient than those used in the structural design of the conventional home. (Bernhardt [Unpublished Study for the U.S. Department of Housing and Urban Development] "Manufacturing," pages 86, 93.)

The HUD standards included certain improvements over the ANSI standard, but homes built to the HUD standard are equivalent in every way to homes built to conform to any building code currently enforced in the United States.

American ingenuity has thus developed a unique product which satisfies the need for affordable housing by building each unit in a factory on a steel chassis which can transport the home to the site. This concept satisfies the need for rural housing, particularly where large scale site housing cannot be made available. Unfortunately, there remains a prejudicial attitude about manufactured housing because of its origins. It was started at a time when manufacturers were building both recreational vehicles and mobile homes. But those two lines of products diverged sharply and the idea of building a house in a factory has resulted in production efficiency and cost savings. Unfortunately, some of these misconceptions found their way into the National Manufactured Housing Construction and Safety Standards Act. Despite such misconceptions, though, the phrases which were used in such statements as the Statement of Purpose of the Act were clearly not meant to require an unlimited improvement in quality, durability and safety without consideration of cost and the need for affordable housing.

ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

Proposed New National Housing Policy and Program

October 5, 1987

I. THE PROBLEM

A. Magnitude of the Problem

The number of low-income households is increasing while the supply of decent and affordable housing stock is declining, a situation which has reached crisis proportions. Evidence reveals that:

1. Between 1974 and 1983, the number of rental households earning under $10,000 increased by 3 million to an estimated 12 million. At the same time the number of rental units affordable to these households declined by 2 million to 9.3 million.
2. Two-thirds of the 23 million very-low-income households (50 percent of median income or less) currently pay excessive rents (more than 35 percent of income) or live in physically inadequate structures.
3. Expiring federal contracts and low-income occupancy restrictions have put at risk a substantial number of the 1.9 million privately-owned, federally-assisted. low-income rental units under the Section 8, Section 236, and Section 221(d)(3) programs; some estimates indicate that as many as 900,000 units could be lost from the low-income stock by 1995 as their mortgages are "prepaid."
4. Estimates of the number of persons who do not have a permanent address or means of shelter vary between 350,000 and 3 million.
5. Many low- and moderate-income potential first-time homebuyers are priced out of the conventional mortgage market.

B. Recent Response to the Problem

The federal government's recent response to the low- and moderate-income housing crisis has been to:

1. Reduce by over 70 percent (from $30.2 billion in FY 1981 to $7.4 billion in FY 1987) direct federal expenditures to meet the housing needs of low- and moderate-income persons.

2. Eliminate or curtail tax incentives to stimulate new production and rehabilitation of affordable housing for low- and moderate-income persons including:

    a. eliminate the incentive for private investors to invest in low-income rental housing;

    b. replace previous investment incentives with a new low-income housing tax credit which, in the absence of additional subsidies, is of insufficient value to stimulate significant production of new rental housing; and

    c. dramatically reduce the ability of state and local governments to provide tax-exempt financing to stimulate affordable housing opportunities for low- and moderate-income renters and first-time homebuyers.

II. A POSSIBLE NEW RESPONSE

The federal government should reaffirm as national policy "the goal of a decent home and a suitable living environment for every American family" first enunciated in the Housing Act of 1949. To achieve this goal, Congress should reaffirm the annual production benchmark of at least 600,000 units mandated in the 1968 Housing Act but abandoned over the past several years.

Pursuant to this policy the federal government, in partnership with local and state governments, the private sector, and the non-profit community, should stimulate affordable housing opportunities for low- and moderate-income persons.

Furthermore, Congress should rely on the lessons learned from past federal policy and programs and build upon the considerable capacity and expertise existing within local and state governments, the private sector, and non-profit organizations, all of whom have accepted greater responsibility for the provision of housing as the federal government has stepped back.

A. Assuming Roles to Provide Affordable Housing

1. The federal government should provide direct federal expenditures, provide appropriate tax incentives, and provide credit supports to stimulate affordable housing opportunities.

2. State governments should implement federal housing programs as appropriate but should never serve as the exclusive or primary deliverer of federal housing programs below the federal level; provide capital and other assistance from their own resources to local governments, to the private sector, and to non-profit organizations to create affordable

housing; and remove any legal constraints on the ability of local governments to provide affordable housing opportunities.

3. Local governments (and their designated agencies) should: implement federal housing programs as appropriate, usually serving as the primary deliverer of federal housing programs below the federal level; to the extent possible provide local capital and other assistance to themselves, to the private sector, and to non-profit organizations to create affordable housing opportunities; and enact policies (such as inclusionary zoning, impact fees, and linkage programs) which increase affordable housing opportunities.

4. In partnership with local governments and their designated agencies, the private sector should be relied upon to the extent feasible to construct, own, and manage affordable housing for low- and moderate-income persons. In addition, the non-profit sector, where appropriate and feasible, should be utilized by local governments and their designated agencies to provide affordable housing opportunities through construction, ownership, and management. The financial, management, and creative resources of each participant in these partnerships should be leveraged in a way that results in the greatest benefit to those in need of affordable housing.

B. Learning from Past Experience

A new national housing policy should incorporate lessons learned from previous federal housing policies and programs.

1. Mixed-income developments foster a positive housing environment and have helped eliminate the stigma attached to publicly assisted housing.

2. High-density public housing developments, with heavy concentrations of households with similar, very low incomes, are not conducive to a positive housing environment and are often socially counterproductive. Conversely, public housing units located on scattered sites have had much more success in gaining neighborhood acceptance.

3. Despite the fact that deep rent-subsidy programs targeted to the very-low-income persons are very costly, they are the only way to respond to the housing needs of such persons and should be maintained and adequately funded as separate programs.

4. Flexible block grants to local governments have worked very successfully in the community development area and should serve as a model for housing programs.

5. Many local and some state governments have developed expertise in financing affordable housing which should be capitalized on in future programs.

6. Many local and some state governments have become very innovative in creating and packaging federal and other resources to stimulate affordable housing opportunities.

III. PROGRAM PROPOSALS

A. Rental Housing Production

Congress should enact a new Housing Production Incentives Program (HPIP) to assist directly local governments and their designated agencies (and, where appropriate, state governments) in constructing, acquiring, and rehabilitating housing for low- and moderate-income persons. The private or nonprofit sectors could also receive federal assistance -- through local governments -- for these same activities.

The program should be adequately funded and should at least include funding now authorized for public housing construction, Housing Development Action Grants, Rental Rehabilitation Grants, Section 312 Rehabilitation Loan Repayments, and Section 8 Moderate Rehabilitation.

Funds could be used for capital grants for development, acquisition, and rehabilitation activities; direct loans; loan guarantees; interest rate subsidies; rent subsidies; operating assistance; and for programs designed to meet special housing needs such as transitional housing and shelters for the homeless, housing for large families, and housing for the elderly. Each grantee would select one or more of these activities for funding under the Housing Production Incentives Program based on the relevant affordable housing needs in its jurisdiction.

Most of the funds would be distributed as entitlements directly to metropolitan cities and urban counties which would designate a lead agency with a demonstrated capacity to carry out a housing production program; the balance of funds would be distributed to states or to the Department of Housing and Urban Development for use in areas not receiving entitlements. A minimum entitlement amount would be established, below which the funds would revert to the state or HUD pool.

Eligible properties would include existing, newly constructed, and rehabilitated housing with at least 20 percent of the units available to those whose incomes do not exceed a specified percentage of the area median income and with tenants paying no more than 30 percent of their income for rent. [Congress should acknowledge and address the fact that the income targeting requirements stipulated in the 1986 Tax Act make housing programs unworkable in many urban areas, and can only be accomplished through a more valuable low income tax credit and/or additional subsidy.] The market rate rents applicable to the balance of the units would help subsidize rents on the set-aside units.

Properties so assisted must retain occupancy restrictions for at least 20 years.

HPIP grantees would develop a comprehensive housing plan identifying local low- and moderate-income housing needs, and the specific activities which available resources would fund to respond to those needs; adopt relevant policies providing for affordable housing such as inclusionary zoning, impact fees, density bonuses, linkage programs; demonstrate how they would leverage federal funds with those from non-federal sources; and demonstrate capacity to carry out a housing production program.

Grantees would insure, to the maximum extent possible, that activities undertaken would avoid displacing existing tenants; assistance would be provided to those involuntarily displaced.

B. Deep Subsidy Program/Public Housing Modernization and Operation

Apart from the Housing Production Incentive Program, Congress should continue to provide separately operating subsidies and modernization funds for existing public housing units as well as funds for Section 8 Existing Certificates and Housing Vouchers, since these are established, on-going programs.

C. Tax-Exempt Bond Provisions

Congress should define as "governmental" tax-exempt bonds which are issued for multifamily rental housing projects meeting specified targeting requirements. Consequently, these bonds would not be subject to the unified volume cap or the alternative minimum tax, thereby facilitating their use in conjunction with the Housing Production Incentives Program. Such a definition recognizes that providing affordable rental housing for low- and moderate-income persons is indeed a legitimate and traditional function carried out by local government.

Furthermore, Congress should continue to require that at least 20 percent of the units in any bond-financed multifamily rental housing project be set aside for households whose incomes do not exceed 50 percent of the area median (or 40 percent at 60 percent), adjusted for household size. As mentioned above, the income targets must recognize the wide variations in local housing markets and production costs across the country and result in economically viable projects.

To enhance the effectiveness of the HPIP and bond program, Congress should add value to the low-income housing tax credit, as described below.

D. Low-Income Housing Tax Credit Provisions

The current low-income housing tax credit requires that 20 percent/40 percent of the units in an eligible project be set aside for those with incomes at 50 percent/60 percent of the median, and provides a 4-percent credit on the set-aside units financed with tax-exempt bonds or receiving federal funds or a 9-percent credit if conventionally financed. As structured, the tax credit is of insufficient value, absent any additional subsidy, to achieve the required targeting or to stimulate sufficient production of new affordable rental housing. To overcome this and other shortcomings in the credit, Congress should:

1. Increase the value of the credit by providing either a 3-percent credit for all units in the project, with an additional 5-percent credit on the set-aside units (not figured on a present-value basis); or a 7-percent credit for the set-aside units in projects financed with tax-exempt bonds and an 11-percent credit for the set-aside units on conventionally-financed projects.
2. Permit the carry-over of tax credit authority for up to three years to accommodate projects which cannot be placed in service during the year in which tax credit authority is available for allocation.
3. Eliminate (or at least extend for 5 years) the December 31, 1989 sunset of the tax credit.

E. Other Real Estate Provisions

Congress should allow multifamily rental housing projects meeting targeting provisions enumerated in this proposal to be depreciated over 19 years at a 175-percent declining balance. This would distinguish such projects from the rest of residential rental real estate and provide further incentive to invest in such projects.

F. Preservation of Existing Low-Income Housing Stock

Congress should provide incentives to help insure that the existing low-income housing stock subsidized or insured under the Section 8, Section 236, and Section 221(d)(3) programs be retained in the low-income stock. Specifically, it should:

1. Create the Housing Production Incentives Program detailed above to provide local governments with a source of needed preservation incentives as well as with funds to replace any lost units.
2. Allow local agencies the right of first refusal to purchase projects that are slated for conversion to market-rate rents.
3. Improve the value of the low-income housing tax credit for use with these projects.
4. Require any projects receiving rehab financing to extend the occupancy restrictions for the duration of the mortgage.
5. Increase the allowable rate of return (currently capped at 6 percent).

G. Homeownership Opportunities for Lower-Income Individuals

The existing Mortgage Revenue Bond Programs, and in certain areas the Mortgage Credit Certificate Programs, have served as an effective, efficient means of assisting low- and moderate-income first-time homeowner buyers. Therefore, Congress should eliminate (or at least extend for 5 years) the sunset of the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs to provide homeownership opportunities to first-time homebuyers; increase the income limits for the MRB and MCC programs to 120 percent of median in non-targeted areas; and require by statute that, to the extent feasible taking into account prevailing interest rates and local housing market conditions, MRB and MCC issuers serve persons of lower income before those of higher income.

The federal government should administer the Nehemiah Housing Opportunity Grant Program to provide homeownership opportunities through non-profit organizations for families in distressed areas.

H. Role of Federal Housing Credit Agencies

1. Secondary Mortgage Market Participants
   Congress has not provided a clear mandate for, and the administration has opposed the active participation of FNMA and GNMA in affordable housing programs through adequate credit support. Consequently, these agencies have not participated sufficiently to meet the credit needs of local housing finance agencies. Furthermore, FHLMC has not participated at all, in spite of the fact that savings and loan institutions and savings banks are among the most active real estate lenders, but lack the ratings required to serve as credit enhancers.

Therefore, a new federal housing policy should:

a. contain a clear mandate that the major federal housing credit agencies - FNMA, GNMA and FHLMC provide credit support for both tax-exempt and taxable housing obligations of local governments. Beyond this, the mandate should place a high priority on providing credit support for affordable housing financings.

b. FNMA, GNMA, and FHLMC should impose security and underwriting requirements on tax-exempt bond-finance single-family programs that are less stringent than those applied in conventional secondary market programs. These agencies should develop underwriting criteria for multifamily programs with input from local bond issuers and financial institutions.

c. Loan guarantee fees related to affordable housing programs should be priced at cost, including risk consideration, rather than at "market value."

d. Congress should not encumber these agencies' programs with overall credit authority caps or excessive user fees.

2. Federal Housing Administration
To counteract the deterioration of the agency over the past six years, Congress should renew FHA's mandate to participate fully in housing insurance and guarantee programs. Congress should not privatize FHA nor restrict its operations with volume limits, additional user fees, or income targeting, but should instead revitalize the agency. Specifically, the mandate should:

a. Increase professional staffing at FHA in the area of multifamily insured programs;
b. Maintain FHA's role in single-family mortgage insurance, given the demonstrated inability of the private mortgage insurance (PMI) industry to serve moderate-income homebuyers. The FHA should not increase fees to the levels charged by PMI companies or limit the income of borrowers utilizing FHA insurance; such actions would weaken the ability of FHA to balance its risk portfolio and to serve moderate-income borrowers;
c. Revise the FHA insured mortgage limits to mirror the limits applicable for mortgage revenue bond programs (90 percent of the area average purchase price). This would recognize the wide variation in local housing markets and allow for more timely adjustments to the limits; and
d. Revise the FHA policy which delays payments of claims on multifamily insurance defaults to allow more time for defaults to be cured. This policy increases the required debt-service reserve funds or GNMA collateral

requirement, causing a hardship for local bond issuers. Congress should revise this policy for those cases when FHA insurance is used with a tax-exempt or taxable bond to finance low- and moderate-income housing projects.

3. New Credit Support Program
One of the most critical problems in financing rental housing which is affordable to low- and moderate-income households is the high cost of debt financing and the dearth of equity capital since enactment of the Tax Reform Act of 1986. To provide a ready market for these higher risk, non-enhanced loans and to generate a source of equity investment for such projects, Congress should establish a new secondary market credit support program to buy and securitize below-market first and second mortgages for low- and moderate-income rental projects. Under this program local housing finance agencies and/or local lenders approved for such a program would underwrite mortgage loans using standardized lending criteria.

These mortgages would then be purchased by an arm of GNMA or other appropriate agency, guaranteed and in turn packaged to be sold in the private securities market as a means of raising debt and equity capital, thus helping to make up a gap in the project's financing. The debt service of the project would be reduced to accommodate the reduced rents on units set aside for lower income households, with the remaining debt service raised through equity participation and if needed other government subsidy such as through the proposed HPIP. The extent of the targeting would be commensurate with the amount of equity sold or available subsidy.

IV. CONCLUSION

Adoption of this proposal would:

- o Create two new mechanisms to provide affordable housing: the Housing Production Incentives Program and a new credit support program;
- o Recognize a continuing federal role in housing policy/programs;
- o Utilize the capacity developed by local and state governments, the private sector, and non-profit organizations;
- o Reward non-federal resource commitments;
- o Recognize and leverage limited federal funds;

- Minimize federal approvals;
- Build upon the lessons learned from previous programs; and
- Allow for a flexible, tailored approach to housing needs/solutions.

ABOUT THE ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

ALHFA is a non-profit association of professionals in the housing finance industry. Regular members are some 130 city and county agencies which finance affordable housing for low- and moderate-income persons through a variety of means -- tax exempt bonds, taxable bonds, Federal grant programs and state and local subsidies. Affiliate members are those organizations and firms providing technical assistance to local agencies.

Council For Rural
Housing And Development

TOWARDS A NEW FRAMEWORK FOR HOUSING POLICY

The Council for Rural Housing and Development (CRHD) is pleased to have the opportunity to submit its thoughts on a national housing policy for rural America to the Senate Committee on Banking, Housing and Urban Affairs and its distinguished Task Force. By way of background, CRHD is a national association of over 175 member organizations, including 14 state associations, actively involved in the construction and management of rural rental housing through the Farmers Home Administration's Section 515 program.

I. THE NEEDS OF RURAL AMERICA ARE WELL SERVED BY FmHA

The housing needs of rural America are very much different from those of urban America. Very low incomes, reduced service availability, and a dearth of existing housing stock in rural areas impelled Congress in 1963 to adopt the Section 515 program. This loan program has been extremely effective in providing decent, safe and affordable rental housing in rural areas. It has an extremely low default rate of less than one percent, and now provides over 370,000 units of housing to over 750,000 family, elderly, and handicapped citizens across the U.S. at a construction cost which averaged less than $33,000 per unit in 1986.

In fact, the General Accounting Office (GAO) recently released a report ("Rural Rental Housing: Cost Information on FmHA's Section 515 Program and other Rural Housing Options") which substantiates the success of the Section 515 program in serving the needs of very-low income households. GAO reported that the program is benefitting mostly very low income households in rural areas; almost half of the households contacted by GAO paid reduced rents after moving into Section 515 apartments; and of three rural housing programs analyzed -- Section 515, the Section 502 homeownership program and housing vouchers -- Section 515 was found to be the least expensive way to serve very low income tenants.

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Because of the acute differences between rural and urban housing needs, CRHD believes the rural and urban housing programs should remain separate. The Farmers Home Administration provides an excellent existing structure for delivery of housing to rural America. We would be vehemently opposed to replacing FmHA with an alternative housing agency or moving the responsibility for FmHA housing programs to the Department of Housing and Urban Development (HUD). "Urban" is HUD's middle name, while FmHA is a tradition in rural communities. Its delivery system and field offices reach deep into the community, an important element in developing and maintaining very small projects in remote locations.

II. LOOKING AT ALTERNATIVES

To develop CRHD's position on future rural housing programs, the president of CRHD appointed a special task force with the charge to look at every possible option in addition to the present Section 515 program. The task force made an extensive canvass of possible methods of providing rural housing other than Section 515.

Special scrutiny was given to a housing block grant program as CRHD understand that several housing organizations are forwarding this proposal. We concluded that while a block grant program may be appropriate for urban areas, it would not be an effective mechanism for providing housing in rural areas. The success of a block grant program rests on existing government agencies to administer the program. Rural localities do not have the professional staff, knowledge, or expertise necessary to administer complex housing programs. Most rural areas would be incapable of even completing the required application. Furthermore, a block grant program, if it were to involve an allocation formula similar to any of those currently in effect, would not provide small rural communities meaningful allocations. The amount of money available would not be sufficient to provide any significant new construction of housing. In short, a block grant program would not work in rural communities because they do not have the capability to administer the resources and because such a program would not provide resources in sufficient amounts to small communities to get any housing built.

III. RETAIN AND IMPROVE SECTION 515

A. Loan Guarantee Program

As a result of our analysis, we concluded that the Section 515 program should be retained in rural areas. However, there are certain improvements that can be made to the Section 515 program to make it even more housing effective and cost effective. For example, for the past several years, CRHD has advocated a demonstration program to explore an alternative funding mechanism. Instead of FmHA making direct loans, in the case of multifamily housing, it would be possible in many areas for non-federal lenders to make the direct loan to the developer with an FmHA loan guarantee analogous to the loan insurance provided by the Federal Housing Administration. There is a very important caveat, however. To produce affordable rental housing, the Farmers Home Administration would still have to subsidize the interest rate on those loans.

Since this is a radical departure from present practice, it is not recommended that this change be made all at once. Instead, it should be attempted on a demonstration basis with 10% of the funds allocated to Section 515 being utilized under the loan guarantee experiment. If the experiment proved successful, the program could be broadened to encompass a significant portion of Section 515 multifamily loans over several years.

Statutory authority already exists for guaranteed loans, pursuant to Section 517 of the Housing Act of 1949, authorizing the Department of Agriculture to insure the payment of loans made by lenders other than the United States. Likewise, the interest credit mechanism set forth in Section 521(a) seems workable with direct loans. Pursuant thereto, FmHA pays the difference between the subsidized rents and market rate determined by the Secretary of the Treasury taking into consideration the average market yield on outstanding U.S. market obligations with comparable maturities. (Whether this formula produces a true market rate should be examined.) However, Section 521(a) provides for an interest credit mechanism which may not be applicable if the government is not the direct lender, necessitating a statutory change to permit FmHA to make the interest differential payment directly to the lender.

In all events, Farmers Home should be the lender of last resort. Accordingly, if neither a private lender or state or local agency is willing to make the loan, even with a loan guarantee, then on a standby basis, FmHA should do the lending.

B. Better Serving the Rural Poor

The Farmers Home Administration on October 1, 1986 increased the required tenant contribution to rent from 25% of income to 30% of income. This increase, coupled with changes in how tenant incomes are calculated for purposes of determining rents, has resulted in acute project vacancies throughout the country. Eliminating all deductions in income for families and increasing the rent-income ratio has often produced rents comparable to those charged in alternative conventional housing in the market area. Often, the alternative conventional housing also includes amenities prohibited in federally assisted housing. Where there is no alternative affordable housing, some families are forced to move to substandard housing because the increase in the rent income ratio has left them bereft of disposable income for necessities. Obviously, 30% of a $25,000 income leaves much more over for the necessities than does 30% of a $12,000 income. Unfortunately, it is the family of four where both adults are earning minimum wage that is hardest hit. The following examples illustrate this problem:

EXAMPLE 1

Husband and wife with no children.
Both work 40 hour weeks and make minimum wage of $3.35 per hour.

	New Regs	Old Regs
Combined Gross Annual Income	$13,936	$13,936
Minus FmHA Adjustments	0	(5%) 697
FmHA Adjusted Annual Income	$13,936	$13,239
RENT (Adjusted Annual Income ÷ 12 x30% - $70 utility allowance)	$278	$206

EXAMPLE 2

Husband and wife with 2 children (ages 14 and 15).
Both work 40 hour weeks and make minimum wage of $3.35 per hour.

	New Regs	Old Regs
Combined Gross Annual Income	$13,936	$13,936
Minus FmHA Adjustments for 2 minors (and 5% deduction)	960	1,297
FmHA Adjusted Annual Income	$12,976	$12,639
RENT (Adjusted Annual Income ÷ 12 x 30% - $70 utility allowance)	$254	$193

One way to resolve the problem of decreased disposable income would be to base the 30% contribution on after tax income. A second alternative would be to calculate rents at 25% on income at or below the very-low level (i.e., 50% of median) and at 30% for the remaining income above 50% of median.

Market rent rates currently set by the Section 515 program are not always indicative of true market rents in rural areas. A truer reflection of actual market rents would best be obtained through a local market survey.

The 30% of income to rent policy needs to be adjusted for rural areas in order to make rural housing more competitive and to ensure that tenants retain enough disposable income to provide for necessities and market rents need to be established at an appropriate competitive level in each rural community.

C. Targeting Use of Rental Assistance

In order to reach as many low-income tenants as possible, rental assistance (RA, the deep subsidy making up the difference between 30% of a tenant's income and the project's basic rent) is necessary. The most logical way to allocate RA to a project is to mirror the percentage of RA needy population in the project area. For example, if 50% of the local population has incomes below that required for 30% of income to meet basic rent, then that same percentage of units in a Section 515 project in the area should be eligible for rental assistance. This would help to tie the occupancy in units to the true market. Such a policy would reflect local needs and allow for the housing of those who most need to be housed. In any event, if RA is not available, a viable project should still be approved.

The Housing and Urban Rural Recovery Act of 1983 (HURRA '83) requirement that 95% of RA go to families with incomes of 50% of median or below should be eliminated. This requirement severely restricts the use of RA in many areas experiencing vacancy problems where RA is greatly needed. Ideally, rural areas should be served on an individual basis based on demonstrated need determined by market studies.

Consistent with RA allocations based on market need, units for the elderly should receive funding priority. Although present policy prioritizes this segment of the population, only rental assistance can make it a reality. The elderly population in rural areas, as elsewhere, is ever increasing; housing them generally requires the availability of 100% rental assistance because of their very low incomes.

Finally, steps should be taken to ensure that rural areas receive their fair share of any housing voucher program.

D. Incentives to Induce Private Participation to Produce Stock

Historically, there has never been a low income housing program with enough economic incentives to induce private sector participation. This fact was recognized in the Tax Reform Act of 1986 with the creation of the low income housing tax credit. By and large, we believe that the credit will prove to be workable in conjunction with the Section 515 program. We realize that the Banking Housing and Urban Affairs Committee does not have jurisdiction over the tax credit program, but we do request that you inform the Senate Finance Committee of the following changes needed in the tax credit program.

At present, only taxpayers with adjusted gross incomes of less than $200,000 per year can use the credit in full and taxpayers with adjusted gross incomes over $250,000 cannot use the credit at all. Use of the credit is effectively limited to $7500 per taxpayer. CRHD proposes that the income cap be removed in its entirety so that all taxpayers can utilize the credit. We realize that this would result in wealthy taxpayers utilizing the credit. However, the mitigating factor is the $7500 use limitation, which would be a very small portion of a wealthy taxpayer's liability to the Internal Revenue Service. We recommend retention of the $7500, except that it should be indexed by the C.P.I. to account for inflation.

The Committee and the task force are well aware that the most pressing issue facing the low income housing community today is preservation of the low income housing stock. The difficult task is to balance the owner's contractual right to prepay with the need to preserve low-income occupancy in a particular project. CRHD believes that the two goals can be reached if the government assumes its proper responsibility of compensating the owner for the fair market value of the project. This principle is well-recognized in H.R. 4, authorizing the buy-out of owners with pre-December 21, 1979 Section 515 contracts having the immediate right to prepay.

In the alternative to the H.R. 4 mechanism, another reasonable approach would be to allow Section 515 owners, upon the owner's commitment to retain the project as low income housing for another twenty years, to receive a subsequent loan for the fair market value of the equity in the project at the time that the twenty-year lock-in expires, or for purposes of pre-December 21, 1979 contracts, when the owner wishes to exercise his right prepay. Such an approach provides a viable alternative to the non-profit buy-out envisioned in H.R. 4. It is estimated that the cost of converting 5,000 eligible Section 515 units in this manner would be approximately $37 million.

Finally, in order to maintain housing stock, a maintenance and rehabilitation program should be adopted to prevent deterioration and default. FmHA should be authorized to make subsequent loans for that purpose, analagous to similar measures contained in this year's housing legislation for the FHA programs.

E. Homeownership Incentives to Tenants

A national housing policy should not only provide affordable housing, it should encourage increased tenant welfare. One way to accomplish this end would be to set aside that portion of a tenant's rent currently constituting overage (rent paid in excess of basic rent) in an escrow account to be used at a future date as the downpayment for a home. If a tenant were to move out of a project with no intention of purchasing a home, this sum would be returned to the Rural Housing Insurance Fund. Such a homeownership program would provide a real incentive for tenants to leave subsidized housing.

F. Assuring Availability of Low Income Housing In All Communities

There are some communities, rural and otherwise, that thwart the location of low income housing within their boundaries by restricted building codes, zoning and the like. In such cases, we recommend that these communities not be eligible for desired federal assistance, such as Farmers Home, Community Development loans, business and industry loans, and grants from other federal agencies. We do not believe that the federal government should make its scarce funds available to communities that discriminate against low income housing.

III. CONCLUSION

It is critical to realize that the proposals outlined here are not intended to be a disjointed set of elements within the framework of a rural housing policy. Each of the elements are parts of a whole, which when taken together, form a comprehensive and workable philosophy for housing our Nation's rural poor.

Each aspect of the program leads to or complements another. It follows logically that the best designed and thought out technical program will fail if incentives are not in place to attract developers. Thus, tax benefits become an integral part of the program. At the same time, no benefit will make a program successful if the technical requirements of the program are not feasible. It is for this reason that a reworking of rent calculations and the provision of homeownership incentives are included. Taken together, these steps will both encourage occupancy of rural rental housing by making it affordable, and lead to short term tenancy in favor of homeownership. This would be particularly effective in reducing the mentality of subsidized apartment living from generation to generation.

Clearly, the policy recommendations outlined here are broad and general in nature. Of course, we look forward to working with the Committee and its staff in translating these proposals to legislative reality, in an effort to create a truly comprehensive and workable housing program for our rual citizens.

CLPHA

Council of Large Public Housing Authorities

Recommendations for Future Directions in Low-Income Housing Policies and Programs in the United States

PREPARED FOR

SENATORS ALAN CRANSTON AND ALFONSE D'AMATO
of the Subcommittee on Housing and Urban Affairs
of the Senate Committee on Banking, Housing and
Urban Affairs

BY

THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLPHA)

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CLPHA RECOMMENDATIONS TO THE CRANSTON/D'AMATO COMMITTEE

A. Reaffirm and expand the national housing goal. CLPHA asks Congress to reaffirm the 1949 National Housing Goal of decent, safe, and sanitary housing for every American household, and add the words "affordable housing." It should be made clear that this goal also applies to those housed or to be housed under federally-assisted housing programs. These households, too, should have acceptable and affordable housing.

B. Identify in detail and prioritize the needs for housing assistance.

The need for low-income housing assistance in this country is large and continues to grow.

Reports prepared recently by Dr. William Apgar of the Joint Center for Housing Studies of Harvard/MIT contain the following findings and conclusions.

- During the period 1974-1983, average rents in the private rental housing stock increased more rapidly than the incomes of low-income households. The rents at the lower end of the rent scale -- the only units accessible to low-income households -- experienced rent increases greater than the average increases in the rental stock as a whole.
- The rent burden (rent-to-income-ratio) of low-income households increased substantially during this period (for those not living in assisted housing). A growing number of low-income households currently pay over 30, 40 and even 50 per cent of their incomes for rent. As Table 1 shows, the proportion of households in the lowest income group that was paying 50% or more of its income for rent grew from 33.6% in 1974 to 41.9% in 1980 and 47.3% in 1983. Over one quarter (26.8%) of all households in the lowest income class paid over 75% of their incomes for rent in 1983.
- The private rental housing stock available (in terms of price) to low-income households shrank during the period under study. Although there was a significant increase in the "assisted" housing stock during the period 1974-1983, it barely compensated for the shrinkage in the private market stock, and was not enough to actually expand the supply available to low-income households. (See Figure 1.) Even though rental vacancy rates were high in certain areas of the country in 1986 (see Figure 2) most of these vacant units were not available to low-income households.
- The absolute number of low income households is growing. The number of renter households with real income less than $10,000 (in constant dollars) increased from 8.4 million in 1974 to 11.9 million in 1983. Only about one quarter of these households were receiving any form of housing assistance in 1983.

- Although in the early and mid-1970's there was an adequate rental housing stock, available at reasonable costs, that could allow rental assistance programs to work relatively well in most housing markets, by the mid-1980's this was no longer true. Nor is it expected by Dr. Apgar to be true in the future. Rather, the problem is expected to get worse. This seriously calls into question HUD's current policy of proposing rental assistance as the sole future vehicle for federal housing assistance programs.

It should be a matter of federal policy that housing assistance be prioritized and directed and allocated according to where the needs are greatest.

Changes occur in the American population over time, including changes in that segment of the population which is the target group for housing programs. The number of elderly persons is increasing, and the number of very elderly and frail elderly persons is especially increasing. Average household size is decreasing for the nation as a whole; but in some regions the average size of poor households is growing. The number of homeless families is increasing. The number of doubled-up families is increasing. The number of identified special needs households is increasing.

We ask that Congress establish and provide funding for an on-going, nonpartisan research program to evaluate the changing housing needs of the American population, especially low-income, elderly and special needs households, and to issue objective, regular and detailed reports to the public. This function is not currently being carried out by HUD.

Many observers have pointed out that the elderly in America are served very well by governmental assistance programs, Medicaid and Social Security; and have suggested that now is the time when more programs for children need to be adopted.

While CLPHA is very concerned for the children in public housing, we also recognize that many children in America are not in need of additional federal assistance.

The funds simply do not appear to be available to provide additional age-based programs, whether for the old or for the young, to all members of any specific age group.

Instead, CLPHA strongly recommends that priority be given, in all federal programs including housing, to low-income households, since this is clearly where the needs are greatest.

All age-based programs should be made sensitive to the incomes of program recipients.

We also ask that Congress put low-income housing programs on the "protected" list of those exempt from automatic cuts under the Gramm/Rudman/Hollings Deficit Reduction Act.

SOURCE: HOME OWNERSHIP AND HOUSING AFFORDABILITY IN THE U.S. 1963-1985
"The 1986 Report"
By the Joint Center for Housing Studies of MIT and Harvard

Percentage Distribution of Rent Burdens

	1974				1980				1983			
	Gross Rent as Percent of Income				Gross Rent as Percent of Income				Gross Rent as Percent of Income			
CATEGORY	< 25%	25-49%	50-74%	> = 75%	< 25%	25-49%	50-74%	> = 75%	< 25%	25-49%	50-74%	> = 75%
All Renter Households	59.85	24.97	6.89	8.29	50.31	29.55	9.13	11.01	45.76	31.43	9.94	12.87
Household Type												
1. Male Single Adult	66.31	21.86	5.22	6.61	58.62	26.04	6.68	8.66	54.55	28.03	7.69	9.74
2. Female Single Adult	39.40	37.21	12.59	10.80	37.71	37.36	13.24	11.69	36.51	37.31	12.98	13.20
3. Unrelated Adults	46.80	32.06	9.77	11.37	40.01	32.57	11.48	15.95	34.34	35.90	12.72	17.05
4. Married Couple Alone	73.37	18.13	3.03	5.47	65.68	22.69	4.61	7.02	62.25	25.40	5.11	7.24
5. Married Couple, Other Rels., No Children	68.03	20.80	3.86	7.31	59.69	22.61	6.36	11.34	53.04	25.47	6.16	15.32
6. Married Couple, Oldest Child < 6	72.87	19.00	2.90	5.23	58.48	29.28	4.79	7.45	51.66	31.05	7.57	9.72
7. Married Couple, Oldest Child 6-17	73.08	15.69	2.25	8.97	61.55	23.41	5.14	9.91	53.68	28.04	6.57	11.71
8. Married Couple, Children, Other Rels.	73.24	12.86	4.28	9.62	59.33	24.51	5.49	10.66	50.02	34.74	6.91	8.33
9. Male Single Parent	62.79	25.06	4.69	7.46	52.58	29.93	9.62	7.87	48.36	29.15	11.71	10.78
10. Female Single Parent, Child < 6	28.06	34.09	21.16	16.69	24.11	28.92	20.30	26.67	17.37	27.50	20.58	34.55
11. Female Single Parent, Child 6-17	39.51	37.08	14.78	8.64	31.24	38.41	17.00	13.35	25.70	37.15	17.29	19.86
12. Female Single Parent, Other Rels.	38.80	33.97	10.69	16.54	36.65	31.83	13.87	17.65	25.60	31.66	17.83	24.91
Age Bracket (for Household Head)												
1. < = 24	54.01	27.30	8.71	9.98	41.57	32.08	11.16	15.18	34.96	32.03	13.86	19.15
2. 25-34	68.04	21.67	4.71	5.59	55.49	28.42	7.05	9.04	49.44	30.42	8.80	11.34
3. 35-44	67.39	19.51	4.69	8.41	55.10	27.86	7.18	9.87	50.90	29.40	8.18	11.51
4. 45-64	62.36	22.65	6.09	8.90	54.55	25.60	8.63	11.23	50.45	28.30	8.17	13.08
5. > = 65	42.89	35.64	11.45	10.02	40.34	35.22	13.34	11.10	37.20	38.94	12.62	11.24
Household Income Class												
1. Lowest	30.69	35.68	18.14	15.49	25.81	32.32	20.07	21.80	20.92	31.75	20.53	26.80
2. Second	59.52	37.45	2.75	0.27	45.99	48.06	5.16	0.79	40.76	50.73	7.69	0.82
3. Third	84.44	15.29	0.18	0.09	74.23	24.81	0.89	0.07	66.86	32.07	1.04	0.03
4. Highest	96.49	3.47	0.00	0.03	94.63	5.33	0.04	0.00	90.85	8.78	0.32	0.05

SOURCE: Authors' tabulations, based on U.S. Department of Housing and Urban Development, Annual Housing Survey tapes, various years.

TABLE 1

[For a discussion of the basis of the above calculations, taken from the same report, see Appendix I.]

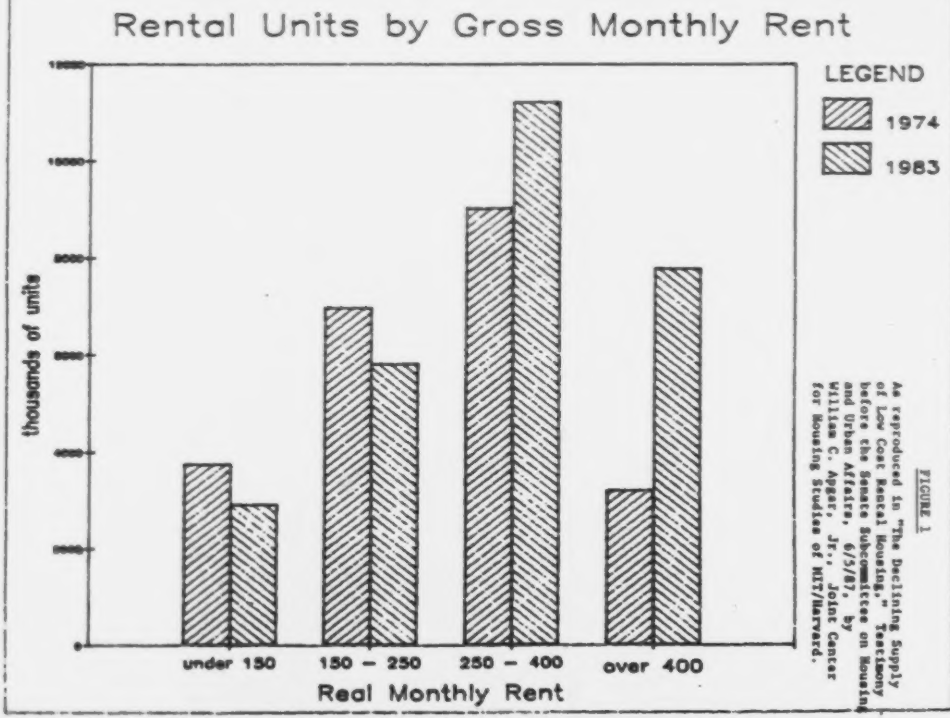

FIGURE 1

As reproduced in "The Declining Supply of Low Cost Rental Housing," Testimony before the Senate Subcommittee on Housing and Urban Affairs, 6/5/87, by William C. Apgar, Jr., Joint Center for Housing Studies of MIT/Harvard.

Source. National Association of Home Builders, Low and Moderate Income Housing.

C. Endorse a strong role for the public sector, and the federal government, and provide adequate funding accordingly. The private housing market does not provide adequate, affordable housing for many households. The private sector needs to make a reasonable profit, or at least to break even, on the housing it provides. Many low-income households, however, cannot afford to pay enough to guarantee this, as demonstrated in the expiring use crisie (see Section E below). For these households, some type of public help is still needed.

The federal government is that level of government which is potentially most equitable and efficient at tax collection and distribution. The federal government should therefore continue to provide major funding for housing programs. State and local governments should be encouraged to contribute as much as they can to augment such programs, but they can never be expected to substitute universally for federal low-income housing assistance.

Funding for low-income housing assistance, i.e. for those households with incomes in the bottom 20% of the household income distribution, should be no less, on an annual outlay basis, than 50% of the annual housing tax subsidies provided to all other American households through federal tax deductions (e.g. local property tax; home mortgage interest; and tax exempt bonds for middle-income housing). Such non-low-income housing subsidies are currently estimated to run at over $40 billion per year.

D. "Ladders up from Poverty."

Economic ladders need to be established to offer incentives and rewards to low-income households for earning additional income if they can. Housing assistance, like other assistance, should be tapered off gradually as household income increases, rather than being cut-off absolutely at a particular income level. The absolute cut-off of benefits such as day care and Medicaid represents a de facto tax rate that is extremely high and falls heavily on those trying to work their way out of poverty.

In public housing, we suggest that the following be considered.

1. Homeownership assistance should be provided to appropriate public housing residents to enable them to move out of public housing and into their own homes, when they have the income to operate and maintain these homes over the longer term.

2. Eligibility of such households for Medicaid and other related programs such as day care should be maintained as household income goes up, in order to avoid the disincentive inherent in a sharp cut-off of benefits.

3. Programs such as the public housing "Gateway" program sponsored by CLPHA should be adopted, to assist public housing residents in their efforts to improve their own economic condition.

E. The Expiring Use Crisis.

An immediate crisis exists in terms of potential expirations of a variety of federal housing assistance programs funded in previous years. The most immediate crisis is the one of defaults in HUD-assisted housing (and HUD's attempts to auction these units off without subsidy), as well as the expirations of use restrictions on previously subsidized developments. In addition, there is a massive projected expiration of Section 8 assistance in the next 5 years. A large increase in new federal housing assistance over the next 5-10 years will be needed in order to deal with these various crises.

Efforts should be coordinated. Blue Ribbon Commission? Special Congressional panel established?

In many instances, public acquisition and ownership of some or all units in individual developments of this type may be the best solution, and PHAs should be given the tools and the funding to take on this job whenever it is deemed appropriate in the opinion of the PHA. The expiring use crisis demonstrates the serious problems that exist with private-sector low-income housing.

Our greatest concern, however, is that the expiring use crisis will soak up funds which are essential for public housing. We are also concerned that the crisis may "dump" many low-income households out of their units at exactly the time HUD is trying to demolish or dispose of the existing public housing stock.

F. Maintain strong support for existing public housing. There must be strong, continuing federal support for existing public housing and rental assistance programs. The major areas for this support are:

(a) operating subsidies;

(b) modernization;

(c) major redevelopment/reconstruction;

(d) new development (including acquisition, new construction, and rehab); and,

(e) rental assistance.

G. Operating subsidies. The current formula and procedures used to fund public housing operating subsidies have many shortcomings. One major oversight in the formula, which has caused enormous shortfalls in funding for PHAs, is the lack of a realistic basis for recognizing the PHAs' actual insurance costs. This needs to be corrected.

A number of other substantial changes, however, many much more significant, also need to be made.

The basis of all of these changes should be the fundamental principles that Congress originally laid down when it established the operating

subsidy system in the mid-1970's, namely that the operating subsidy should be adequate to cover the difference between:
(a) the reasonable costs of a well-managed PHA; and,
(b) PHA income from rents and other sources.

When the present Performance Funding System (PFS) was established in 1975, it was intended by Congress and HUD at that time that PFS should be periodically changed and revised in response to changing conditions, the changing circumstances of PHAs and improved information, in the future.

Such a major revision has never been carried out, however. It needs to be initiated now, and put into place within the next two years.

One direction CLPHA suggests Congress consider is to have the General Acccounting Office (GAO) carry out an evaluation of present problems of the PFS and make recommendations for changes.

The changes need to reflect the goal of recognizing public housing as both:
(a) a professional real estate management operation; and,
(b) an institution that must respond to a variety of special needs of its tenant population.

The environment in which public housing operates has changed greatly since PFS was established over a decade ago. The client groups have changed. Occupancy has changed. Regulations have changed. Costs have changed. Expectations have changed.

A revised PFS needs to provide the PHAs with adequate funding to carry out the many new tasks society expects them to do.

Short-term "fixes". In the short term, operating subsidies especially need to be adjusted in the following ways:

- revised inflation factor;
- an appeals process;
- recognition of the added costs of housing certain groups such as large single-parent households, the frail elderly, households with disabilities, and certain housing configurations such as scattered-site units; and,
- provide incentives to more efficient management of the public housing stock.

H. Modernization

Bringing existing public housing up to livable standards and returning viable units to ocupancy should be primary aims for the future of the public housing program.

Four years ago, the Congress appropriated over $4 million for a study of modernization needs in public housing, including an analysis of those developments needing major redesign and redevelopment. As of September 30, 1987, no final reports of that study had yet been completed and issued by HUD.

A preliminary draft of the "national needs estimate" from the study indicated that the total modernization "backlog" could well be over $20 billion for the nation's 1.3 million housing units, which would be just over $15,000 per unit on the average. When the final results of the study are issued, they are expected to show, however, that the great majority of the current public housing stock has modernization needs of under $15,000 per unit -- which means it is in relatively good condition -- while a limited proportion of all of the nation's 10,000 public housing developments would cost significantly more per unit to modernize, redevelop and/or restore to full occupancy.

The Comprehensive Improvements Assistance Program (CIAP) enacted by Congress and initially funded in federal FY81 has made good progress in restoring the public housing stock to good condition. Much more needs to be done, however.

Some PHAs have now "CIAP-ed" most or all of the developments which needed the "comprehensive" approach mandated by CIAP. These PHAs are now ready to move on to a more flexible and routine annual approach to modernization. Other PHAs have been less successful in past competitions for CIAP funds, and still need "comp. mod" money in substantial amounts to begin cutting into their modernization "backlog". Other PHAs have very small (per unit) modernization needs, and would like a routine annual funding allowance for modernization, with the possibility of accessing some type of national pool, from time to time, for extraordinary needs or major systems replacement.

RECOMMENDATIONS

1. More flexible types of systems for funding modernization in the future are needed, systems which offer more predictability and more local control over the types of work to be carried out. Flexibility, predictability and local control are the watchwords we would ask Congress to provide in any future changes to the modernization program.

2. CLPHA would like to participate in efforts to modify the public housing modernization program, and has made many such recommendations to HUD and the Congress in the past. However, CLPHA recommends that a fundamental principle to be observed in any transition to a new or revised system be that first priority in funding must be given to work needed to reduce the existing backlog of modernization needs; and if the Congress determines that additional funding can be provided above what is needed to reduce the backlog on a reasonable timetable, such "extra" funding could be targeted to a routine annual replacement allowance to deal with new modernization needs as they arise (accrue) in the future.

3. Retain and Modify CIAP in FY88. CLPHA recommends that the CIAP program be retained and modified in the following ways in FY88.

   (a) Expand Special Purpose Modernization. The allowable uses of special purpose modernization funds should be expanded as per the proposed Flake Amendment to H.R. 4. In addition, special purpose funds should be usable for interim modernization of developments awaiting major redevelopment.

(b) Redefine Emergency Modernization. Emergency modernization should include all work needed to protect the health and safety of residents, including work whose lack of funding would contribute to a worsening of an impending emergency.

(c) Technical Changes. Several technical changes in the way the program is administered should be made, including the folowing:

- o begin any time limits on obligation of funds with ACC execution, not with final application approval.
- o develop realistic modernization cost guidelines, instead of applying dated development guidelines to modernization; and apply guidelines only to modernization work at hand, instead of to the total of all work ever done at a development.
- o clarify to HUD regional and field offices regulations which have been misinterpreted, and institute training sessions for PHAs.
- o cease forcing PHAs to use operating reserves for modernization (although such use should always be considered).

4. Hazardous Materials. Congress should direct HUD or the National Institute of Building Sciences (NIBS) to make estimates of the need for lead paint, asbestos and radon abatement in public housing, and provide the needed funding for such abatement. These major efforts cannot be addressed simply by making them priorities within existing modernization programs, without providing the additional funding needed.

Congress should also direct HUD to contract for a technical assistance center, supervised by a board of PHA executive directors, to offer PHAs technical assistance in assessing PHA problems with hazardous materials, developing optimal abatement strategies, and implementing such strategies.

5. A revised system in FY89. CLPHA recommends that the following types of revisions be made in the modernization funding system in the future. If it is possible to develop these changes in time to be adopted by Congress for the FY89 funding year, this would be desirable; otherwise the changes might have to wait for FY90.

(a) Backlog Needs. Continue to fund "backlog" needs through an amended CIAP (Section 14) modernization program, considerably simplified to make it more flexible, predictable and subject to local control over the activities to be undertaken. The allocation system for this program would be based upon a study to be mandated by Congress (that would be carried out by HUD, preferably by the Office of Public Housing), and the program would not be adopted until such an allocation system, based upon identified needs, had been authorized by the Congress. The results of the HUD/Abt study of modernization needs in public housing may possibly be usable to allocate such backlog funds at least to the HUD Field Office level, for 51 such Field Offices across the country.

(b) Newly accruing (on-going) modernization needs. To the extent that additional funding can be provided by Congress, CLPHA recommends that a new annual replacement allowance be provided to PHAs. The watchwords again are flexibility, predictability and local control. It is possible that the annual amounts to be provided under such a replacement allowance could be based upon a percentage of the capital value of the developments to be nominated for inclusion in the program. In addition, developments which receive the annual replacement allowance should also be eligible for a national "pot" of funds for extraordinary items or major systems replacement. Such a national "pot" could either be a new source of funds or else periodic eligibility by such PHAs for access to the modernization "backlog" pot.

The new replacement allowance program should be targeted primarily at developments that meet one or more of the following criteria:

(i) are new;

(ii) have been recently modernized; or,

(iii) have relatively low (per unit) modernization needs.

Based upon the funding available, HUD could offer a certain dollar-per-unit amount to PHAs under a replacement allowance, and PHAs could nominate certain of their developments for such an allowance under a multi-year (e.g. 5-year) contract. The PHA would continue to apply for modernization funding for its other developments under the revised "backlog" program.

CLPHA recommends that no more than 5% of the total funding available for modernization be issued through the replacement allowance program in its first year. That ratio would be increased gradually in the future as the existing backlog of modernization needs in public housing is reduced.

6. HUD/Abt Study. CLPHA asks Congress to direct HUD to complete this study, issue the results, and make the date base available for public use. This is very important.

I. Development. CLPHA proposes that major funding be provided for a revitalized and reformed development program. Figure 1 shows the continuing decrease in units available to low-income households.

1. Purpose: to expand the supply of low-income housing, including: (a) publicly-owned housing; and (b) non-publicly-owned housing dedicated to low-income use. Eligible recipients would be Public Housing Authorities. Low-income means "public housing eligible".

2. Application process: HUD would issue a Notice of Funding Availability (NOFA) and PHAs would apply.

3. Eligible uses: Funds could be used for a variety of eligible purposes (somewhat similar to the CDBG program) in the discretion of the PHAs, including:
   (a) conventional public housing development (acquisition, rehabilitation or new construction);
   (b) contribution by the PHA to a "deal" being packaged by someone elso (e.g. non-profit, CDC or private developer) to leverage an increase in the number of low-income units; [*]
   (c) commitment of funds for long-term rental assistance (operating subsidy) to a non-PHA as an incentive to build, rehabilitate or acquire units for long-term low-income occupancy; OR, [*]
   (d) provision of assistance to a low-income household living in public housing to achieve homeownership outside of public housing, thereby freeing up a unit of public housing.

   Use of funds for condos and coops would be explicitly permitted and encouraged.

4. De-Regulation. The development process needs to be substantially deregulated, or else it will not work, no matter how much it is revised statutorily. PHAs should be able to get the money, and use it much more in their own discretion. For example, PHAs should be able to quickly change the use of the money in response to changing local housing market conditions, without HUD's approval. (HUD would of course continue to have audit responsibilities to ensure that all use of funds complied with statute and regulations.)

5. Names. The development program would have three sections, each with its own name:
   (a) the Elderly Housing Program;
   (b) the Family Housing Program; and,
   (c) the Special Needs Housing Program.

   Congress would specify the amount of the development appropriation to be used for each purpose. PHAs would be allowed to combine units under the various programs on a single site, or as part of a single development project. A new way of calculating the operating subsidy eligibility Allowable Expense Level (AEL) would be needed for the three types of developments. (But this would not affect the AEL for units previously funded under the present PFS.)

6. Amount/level of funding to be requested. For purposes of CLPHA's recommendations at this time, we refer only to the level of need there appears to be nationally for low-income housing assistance. (See Section B above.)

[*] for purposes of 4(b) and 4(c), "long-term" would be 30 years.

7. Size of development.
CLPHA endorses a strong statement of principle that in general there be a limit on the size of new low-income family developments, e.g. "for example, in most communities, the best size for new family developments would be from 10 to 100 units," while acknowledging that in some cities the limit could be higher*. CLPHA endorses the provisions of present statute strongly discouraging any more family high-rise developments unless there are no practical alternatives, e.g. where construction of non-high-rise family units would exceed cost guidelines.

8. Bedroom distribution. CLPHA supports the elimination of the present statutory requirement that development funds go only to large units (e.g. 3+BR). While there is an urgent need for such units, there is an even larger need for 2BR and even 1BR units. Projects consisting solely of 3+BR are much more difficult to manage and maintain, and consequently become less viable, too.

9. Rather than establishing rigid cost guidelines for development, HUD should rely on the competitive bidding process, on an individual project basis, perhaps supplemented by a panel or jury review that would include persons in addition to HUD staff. Cost figures should be looked at "per square foot" rather than "per unit".

10. If the Nehemiah program is adopted by Congress, there should be a set-aside to the PHAs to help encourage homeownership among currently existing residents of public housing, who could move out and free up an existing public housing unit.

11. CLPHA endorses continued use of tax-exempt financing by PHAs and state and local Housing Finance Agencies to develop additional housing; and tax-exempt financing should also be restored for public housing development.

12. CLPHA endorses the Low-Income Tax Credit Program and it should be made more workable (along the lines of the Assn. of Local Housing Finance Agencies proposals). Among these proposals are:
    (a) remove 25% passive loss restriction for individuals; and,
    (b) use in conjunction with tax-exempt financing (9% credit), and loosen up criteria for the 9%.

13. Planning and local needs.
(a) An eligible use for development funds should be to fund local planning efforts aimed at preparing "inclusionary zoning" and other similar proposals that would help expand the local low-income housing supply.

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* For example, in larger cities such as New York and Philadelphia, family high-rise might be specially defined as buildings over six stories.

(b) CLPHA endorses the principle that each PHA's approach to meeting local housing needs should be flexible and reflect local housing market conditions. For example, a PHA should always evaluate whether or not it would be feasible to meet local needs using rental assistance, acquisition, etc., before deciding to do new construction. [Note, however, that sometimes, although units might be available for acquisition, the age and quality of such units might make them more expensive, in the long run, than new construction.] Figure 2 shows that the vacancy rate in the rental housing market varies widely by section of the country, indicating a need for different approaches in different regions. It is important to note that a high rental vacancy rate, however, does not always mean that new low-income housing development is not needed, since most of these vacancies are usually in higher rent units.

(c) PHAs should be funded to hire their own planners to carry out the above tasks, and also to help find sites for new development that are responsive to the "impaction" issue. New and rehabilitated housing should be designed to fit well into the surrounding neighborhood environment - and should strengthen (and be coordinated with) local neighborhood improvement efforts.

(d) PHA's should be required to participate in, and sign off on, local Housing Assistance Plans (HAPs). Input to HAPs should be based to a large degree on PHA waiting list information.

14. If long-term operating subsidy is provided to new low-income housing development not undertaken by the PHA (e.g. by non-profits), such subsidy should go through the PHA.

15. CLPHA encourages PHAs to work to ensure a better "fit" between households and housing units in public housing, in terms of size of household/unit. This could increase the number of larger units available for use by large families.

16. Public Housing Design.
Public housing design has changed and been vastly improved since the 1950's and 1960's, yet much remains to be done.
   (a) Need to change HUD regulations that now require minimum standards only.
   (b) Need to sponsor information exchange on new directions in improved public housing for families, the elderly, and special needs groups.

J. Major Redevelopment/Reconstruction

(1) Substantially expanded funding should be provided for the purpose of major redevelopment. Adequate funding for a major redevelopment project should include enough funding for replacement housing where needed.

(2) Targeting: attention would be targeted especially to large

developments and those with serious vacancy problems, e.g. for hi-rise, those with over 15% vacancy rate, and for low-rise, those with over 30% vacancies), or other serious problems resulting in the development being severely stressed according to the PHA.

(3) Plans. PHAs should be required to submit a statement to HUD, for developments identified in (2) above, which would include:

- the name, size and characteristics of the development and its occupancy history;
- a preliminary survey of the physical and other conditions of the development and an estimate of its mod./redevelopment needs; and,
- the PHA's proposed future general strategy for addressing the needs of this development.

The plan would explicitly recognize that strategies for addressing the needs of these special developments might require a long-term multi-year implementation schedule (e.g. 10 years). Multi-year planning grants would then be awarded by HUD to undertake the major kinds of detailed planning and other activities that would be required to address these needs.

(4) The viability question should be addressed more professionally. HUD's present procedures require more bureaucracy, but not necessarily more good judgement.

(5) In addition, the definition of "special purpose mod." should be expanded to include interim modernization for developments where major redevelopment is being planned.

K. Reshaping the role of public housing.

Although it was once occupied primarily by the "working poor", public housing has increasingly come to have a negative stereotype in many communities as housing of last resort for those who "won't work to support themselves," especially for those dependent on welfare. Public housing has also come to be increasingly minority occupied. The role and image of public housing needs to receive serious attention.

Some PHAs see their goal as being to achieve sound, stable, long-term communities in public housing; while others fear that such "stability" will only result in ghettoization and the spread of a long-term culture of poverty.

Some principles need to be established, redefining the role of public housing, e.g.:

1. Reduce the isolation of public housing.
The national housing policy is that housing assistance should go to those who need it most. Yet this should not mean that assisted units should be isolated from the rest of the community. Major efforts must be made to overcome the isolation of public housing.

The local community should be responsible for providing adequate security in public housing, but PH funds should be devoted to supplementing and targeting these efforts.

Service providers (e.g. day care, health care, education, etc.) need to be encouraged to reach out and enroll more of their clients from those living in public housing, and in some cases establish service centers in public housing developments (subsidized by the PHA without a loss of operating subsidy).

2. Encourage upward mobility economically.
Households receiving housing assistance should be helped to improve their own abilities to seek and take advantage of economic opportunities, for example through job training. (See "ladders" section D above.) "Up and out" strategies should be encouraged and supported by the structure of housing assistance programs, to the extent that viable alternative housing opportunities are available. Consideration should be given to establishing a maximum time limit for continuous occupancy of family public housing, with limited exceptions for emergencies.

3. Integration.
Integrated public housing communities should be the goal, and this should be achieved not only by desegregation policies and tenant selection policies, but also by approval of plans for maintaining existing racial balance. This is one of the most critical issues in public housing today, yet the current Administration's policies are muddled and self-contradictory. This is a highly complex issue and needs a variety of sensitive implementation policies and procedures.

4. Expanded role for residents.
The role of the residents themselves must be expanded, in preserving and maintaining the quality of life in their own developments.

L. Improving the Housing Development and Management System.

The present structure for governing, overseeing, regulating and managing the country's assisted housing programs is cumbersome, rigid and bureaucratic. It is not goal-oriented. Authority and responsibility are widely divided. The system has become almost totally unworkable. No large private real estate operation would be run this way.

The rules for the public housing program are made and approved by HUD's Office of Public Housing, with advice of the HUD General Counsel.

The interpretation of the rules, and oversight of individual PHAs on a day-to-day basis is carried out by HUD Regional and Field Offices. These offices do not report directly to the Office of Public Housing, but to the Undersecretary of HUD. They are widely perceived as being responsive primarily to the political and policy mandates of any incumbent Administration of HUD.

Local PHAs are responsible for managing the public housing units within their jurisdiction; yet they must operate within very rigid guidelines and regulations laid down by HUD's Office of Public Housing, as interpreted in a wide variety of ways by the HUD Regional and Field Offices. The PHAs have little authority or autonomy of their own.

The "actors" in the process, whether at HUD Central, in the Regional and Field Offices or in the local PHAs, see themselves by and large as competitors, each trying to achieve their own objectives, and usually at the expense of the others. Sometimes there is cooperation. Equally often, however, there is a lack of communication and a failure to cooperate in achieving what should be common goals.

RECOMMENDATIONS

1) De-Regulation (short-term, immediate)
We ask the Congress to direct HUD to take all steps possible, consistent with statute, to de-regulate public housing. This should be entirely compatible with the current Administration's alleged organizational philosophy.

What we mean by de-regulation is that HUD, for now, should establish rules and regulations for the public housing programs, and then should carry out reviews and audits to check that PHAs are obeying statutes and rules.

HUD should withdraw, however, from the process of approving or disapproving every major (and many minor) decisions which must be made by the PHAs in the course of their day-to-day operations.

The present degree of HUD "oversight" and interference in routine local administrative decision-making processes is intolerable, and highly detrimental to the professional and efficient management of the public housing stock.

2) Major change in the system
(a) The management of the public housing delivery system needs to be completely overhauled. There should be a single Public Housing Administration, established for the purpose of ensuring professional management and administration of the nation's vitally-needed public housing stock, which now includes over 1.3 million units. The policy direction of the agency should be established by an appointed Board of Directors. All of these officials should have a long and outstanding experience in the management of the public housing stock, and should understand the problems facing local PHA managers.

(b) Public housing should be run as a professional real-estate operation.

(c) The staff of the agency that administers public housing programs (whether at HUD or in a new agency) should be revitalized and augmented. Staff should be required to demonstrate extensive knowledge in housing management skills. Promotions should be on a merit basis, with PHAs involved in the performance-evaluation process.

(d) The new agency must be held accountable, not only for rule-making, but also for the condition of the nation's assisted housing units. The agency must work cooperatively with local agencies in the pursuit of a common goal: to house low-income people that need such housing, under decent, safe, sanitary, affordable conditions.

(e) Local Authorities (PHAs) need greater flexibility and autonomy in:
  (i) establishing their own budget priorities;
  (ii) personnel and salary policies;
  (iii) establishing program directions and needs;
  (iv) carrying out programs such as modernization and development.

M. Rental Assistance. (For CLPHA historical review of Section 8 and Voucher experience, see Appendix III.)

1. CLPHA strongly supports expanded funding for additional (incremental) Section 8 "existing" and "mod. rehab." units; and is opposed to any expansion of the so-called "Voucher" program at this time, pending a full assessment of the "Voucher option", including but not limited to whatever further reports HUD may release of the Abt Voucher Demonstration evaluation. (See attached CLPHA summary of the first and only evaluation report released to date, in Appendix II.)

If, as the result of such an assesment, it is concluded that there are advantages associated with the greater flexibility in rents (and rent-income ratios) allowed under the Voucher program, then such greater flexibility should be introduced as modifications to the Section 8 "existing" and "mod. rehab." programs, with Congressional authorization. These changes need not be made by throwing out the current Section 8 "existing" and "mod. rehab." programs, which in most respects are highly successful in their present form and should be preserved as much as possible. They can simply be modified.

2. Rent reasonableness and limits on rent-income ratios. If such modifications are introduced in the future, it may be desirable to put limits on the range of allowable rent-income-ratios, by household size; and in any event to allow PHAs to evaluate "rent reasonableness". However, before an evaluation has been conducted, it is premature to specify exactly what these provisions should be.

3. It is clear that vouchers have the potential for costing more on an average, per-unit basis, that Section 8 certificates, since with Section 8, if a certificate-holder pays less than the Fair Market Rent, the subsidy equals the difference between 30% of income and the actual rent, while under Vouchers, the subsidy always equals the difference between 30% of income and the payments standard.

4. The present administrative provisions of the Section 8 "existing" and "mod. rehab." programs should by and large be continued under any future, modified program. These provisions should also be extended to certificates currently under the "Voucher" program. The list of such administrative provisions includes but is not necessarily limited to the following:

(a) Maintain the present way of calculating Fair Market Rents (FMRs). Any "payments standard" under a modified or voucher program should be required to equal 100% of the FMR, and HUD should continue to allow annual cost amendments to the ACCs and provide additional funding for such amendments accordingly. Update FMRs and payments standards annually.

(b) The procedure for allocating money under any modified or voucher program should be the same as currently used for Section 8, i.e., tenant contribution should not be deducted from the calculation, so that PHAs can build up project reserves in the same manner as currently.

(c) Continue to allow exception rents and allow similar exceptions to payments standards, backed up by additional funding where required.

(d) Maintain the same provisions regarding adjustments to the subsidy of individual certificate-holders as currently with Section 8.

(e) Restore the administrative fee for Section 8 "existing" and all vouchers to 8.5%. Vouchers are not cheaper to administer.

(f) Maintain the current provisions for damage payments and PHA payment of rent when a unit is vacated.

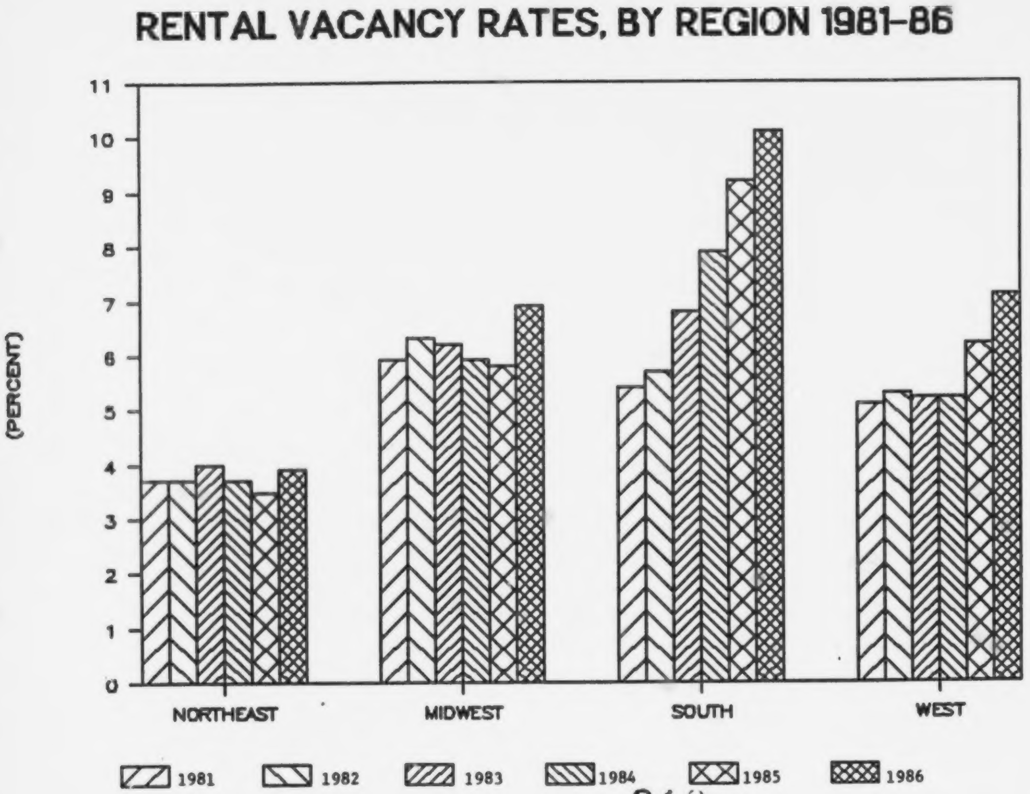
5. Require HUD to calculate true voucher costs more accurately. Congress should direct HUD to show, when it reports to Congress, what the costs are of the number of Vouchers actually fundable by the Housing Authorities, given the money provided by HUD, not the theoretical cost of the number of units that HUD says the PHA ought to be able to fund. Any cost comparisons between Section 8 and vouchers should also be made using the same methodology with regard to whether or not the tenant contribution is included in the calculations.

6. Term of Budget Authority and ACC. In order to allow greater flexibility in the Congressional authorizing and appropriating process, it may be useful to reduce the term of the Budget Authority (and ACCs) for the Section 8 "existing" program (and for any modified program in future years).

CLPHA could support a five-year term for the Section 8 "existing" program. One of the difficulties with this, however, is that it might contribute to the problem in the early 1990's when massive amounts of current Section 8 budget authority are already scheduled to expire.

Also, the ACC term should be counted from the time of amendment authorizing additional units under the ACC, not from the initiation

FIGURE 2



SOURCE: RECENT TRENDS IN REAL RENTS, by William C. Apgar, Jr., with the assistance of Ruijue Peng and Jennifer Olson, Joint Center for Housing Studies of MIT and Harvard University, 1987.

date of the first ACC. The latter is current HUD practice.

7. All program modifications should be brought about through the usual Notice and Comment process required under the Administrative Procedures Act (APA). The use of NOFAs for rulemaking, as a way of sidestepping these requirements, is unacceptable.

8. Variety of program approaches need to be maintained. Although there should be only one "certificate" program in the future, CLPHA recommends that Congress also continue funding housing programs that expand the supply of physical structures in areas where these program approaches are needed. (See Section I. above.) In particular, even though rental vacancy rates may be high in some areas of the country (see Figure 2), new development may still be needed if these units are unavailable to low-income households.

9. Expirations of Budget Authority. CLPHA is extremely concerned about the massive expirations of Budget Authority scheduled to occur in the late 1980's and early 1990's for Section 8 and voucher programs. This makes it all the more important to begin to plan for this crisis immediately. CLPHA recommends that Congress establish a crisis study committee to begin developing recommendations for steps to be taken as this Budget Authority expires, in order to anoid the loss of housing assistance by thousands of low-income households across the country within the next few years. (See Section E above.)

N. Rents and Incomes in Public Housing

Two important changes have occured in statute since 1980, affecting the rents residents pay in public housing.

Eligibility. The eligibility limit for admission to public housing has been dropped from 80% of an area's median income ("low income") to 50% of the median ("very low income"). Making this change has set into motion a process which will, if not amended, eventually result in public housing becoming an entirely "very low income" program.

Rent-income ratio. In addition, the rent-income ratio has been raised from a maximum of 25% to a mandatory 30%.

Since these changes have been made, a growing number of PHAs have found that a significant proportion of their residents in the "50 to 80 percent of median" income category have moved out of public housing, or are strongly considering doing so. The reason is that the difference between public and private housing rents is no longer great enough to make public housing attractive to many of these households.

Many PHAs see these households as providing a core group of a stable, socialized community in the public housing developments. If the PHAs continue to lose this whole category of residents, many PHAs believe there will be increasing social destabilization, and that the developments will become increasingly difficult and costly to manage. As rents go down and costs go up, the average subsidy level would have to increase.

RECOMMENDATIONS

1. Eligibility limits for assisted housing programs should be restored to 80% of median income. Economic integration is necessary for long-term viability in public housing.

2. CLPHA endorses the provisions of H.R.4 which allow up to 25% of all units to be used for households between 50% and 80% of median income.

3. The calculation of adjusted tenant income (for rent-determination purposes) should be revised to provide larger deductions (at least 10%) for earned income (and for health costs of the elderly). The former will provide an increased incentive for residents to seek and to maintain employment.

4. In the case of a household living in public housing whose income exceeded the initial occupancy eligibility limit, it would be eligible for the homeownership funds listed in Section I.4(d) above, as long as its income did not exceed 100% of median.

5. Rents
CLPHA endorses seeking ways to reduce the effective rent-income ratio for all households, but especially for large low-income families, either by reducing the mandated 30% rent-income ratio, or else by increasing allowable deductions.

6. Housing Authorities should be allowed to grant a maximum rent (rent cap) to some limited proportion of the residents, based either upon: (a) a maximum rent, linked to private market comparables; or (b) a rent which reflects actual cost to the PHA.

7. CLPHA also recommends that PHAs be given discretion to reduce rents (rent-income-ratios) in any development with serious vacancy problems, to help in marketing the units in that development.

O. Homeownership in Public Housing.

The need for assisted housing for low-income individuals and households is growing, not shrinking, for a variety of reasons, including: (a) the increasing disparity between the income of the lowest income groups and that of the general population; and (b) the elimination of most of the major tax preferences for rental housing in the recent "tax reform" amendments.

As a result, the waiting lists for public housing have never been longer; and an ever growing proportion of both those living in public housing and those on the waiting lists consists of "very low income" households.

Homeownership is generally beyond the reach of low and very low income households, without very deep subsidies; and the provision of very deep subsidies to a limited number of households, while others continue to suffer without any housing assistance, is poor public policy.

In addition, low-income households find it very difficult to support the "carrying costs" of operating their own housing, when owned, such as fuel, utility, maintenance costs and taxes.

HUD has cited the British example of selling large amounts of public housing to its residents as a model for this country. However, some of the many reasons why the British model has very limited applicability to the U.S. are the following.

1) At the time when the sale of public housing in the U.K. began, nearly a third of the population lived in public housing, much of which had been build since WWII and had been better maintained than in the U.S.

2) The units that were sold were generally in garden apartment/row-house types of structures, not in walk-ups or high-rises which are the more prevalent type of structure in America.

3) There were essentially no upper income limits for eligibility to live in public housing in the U.K. Any household that wanted to live there could. Therefore the median income of households living in public housing in the U.K., relatively speaking, was much higher than in the U.S.; and the households that purchased their own units had a much higher income, relatively speaking, as well.

4) The units that were purchased tended to be those in the best physical condition, and had been the best maintained over the life of the program, generally in large part by the occupants themselves. There was therefore a well-documented pattern of"skimming" in which the best units were sold to the higher-income residents, while the units that remained in the public housing stock were those of poorer quality, occupied by lower-income residents. The benefits realized through the sale of public housing, in other words, went largely to the residents with the smallest needs.

In addition to the above reasons why the British experience is not directly applicable to the U.S., HUD is currently involved in what is now a relatively unsuccessful Homeownership Demonstration of its own in public housing. Before the Homeownership Program is expanded, the results of this Demonstration need to be received, reviewed and analyzed by the Congress and the low-income housing community.

CLPHA policy recommendations

1) CLPHA supports the idea of federal financial support to lower-income households to assist them in purchasing their own housing in the private market, especially existing or rehabilitated housing (rather than new construction). CLPHA would like to work with Congress to develop the provisions of such new programs. (See Section I.3.d above)

2) Homeownership programs should be as equitable as possible, and should provide a moderate level of subsidies to the greatest number of people, not very deep subsidies to only a few, such as would occur under certain amendments under consideration by the Congress.

3) CLPHA supports homeownership in public housing under the following conditions:

a) The sale is voluntary on the part of both the PHA and the resident.

b) Any unit sold must be replaced on a one-for-one basis by an actual, physical housing unit unless the PHA and the local government both certify that such physical units are no longer needed and therefore either: (i) do not require any replacement; or (ii) may be replaced by non-project-based housing assistance (e.g. Section 8 or voucher certificates).

c) Units to be sold must be in standard condition at the time of sale. This may require modernization of units prior to sale.

d) In order to purchase a unit, a household must be able to show that the total carrying costs of the unit will not exceed 25% of the household's after-tax annual income; and there must be evidence of continuing employability and income on the part of the household "head(s)".

e) Resale provisions must be tightly written to prevent "windfall" profits from the resale of the units. An example that might be considered is the FmHA "502" homeownership program, which provides that the government has a lien on the unit that would enable some percentage of the increased value of the unit to be recaptured by the government at the time the unit is re-sold.

4) Any Homeownership Amendments that do not contain provisions resembling those listed above would be strongly and unequivocally opposed by CLPHA.

P. Homelessness and the Need for More Low-Income Housing

Hundreds of thousands of individuals and families currently live, but barely survive, in the nation's streets, in cars, in overcrowded hotel rooms, or crowded into other temporary accommodations. In a recent survey by the U.S. Conference of Mayors, it was found that in one year alone, 1986, the number of families with children seeking emergency shelter grew by 20 percent. The survey further found that the lack of permanent housing was the most common cause of homelessness.

Witnesses at a recent Congressional hearing also identified the lack of permanent housing as a major cause of the current epidemic of homelessness. These witnesses included such diverse groups as the National League of Cities, National Assn. of Counties, Council of Jewish Federations, Catholic Charities, Salvation Army and the United Way, the agency charged with the administration of the FEMA Emergency Food and Shelter Program funds.

The reasons for homelessness and the needs of the homeless are as diverse as the population itself. Some are alcoholic individuals, male and female, young and old. Some have mental or emotional problems, including but not limited to those whose problems have been severe enough to require previous institutionalization. Some are handicapped. Some are chronically ill physically. Most have more limited job skills than the general population. Most are very poor, with few if any assets. In the case of families, many have recently gone through some traumatic disruption of family life, often including the loss of a major wage-earner through death or the break-up of the family. Most are "well socialized," but some are not. Many are young mothers. Many are minorities.

Their needs range from comprehensive physical and mental health assistance, to employment assistance, to day care and assistance in finding a new place to live. The common thread is the need for a roof over one's head, since without some kind of stable living situation it is difficult if not impossible to effectively provide other types of assistance. [In addition, some programs require a permanent address as a condition of eligibility.]

A great variety of efforts are needed to address these problems, public and private, by individuals, groups and organizations, working together. There is no single key to the solution.

The crisis in homelessness is expected to worsen in the future, for a variety of reasons.

Most significantly, the gap betwen average housing costs and the incomes of the very poor continues to grow. The people in the lowest segments of the income distribution nationally cannot afford to obtain housing without assistance. (See Table 1 above)

Recent changes in the tax codes have eliminated many of the tax incentives for rental housing, which has led to predictions by industry sources as well as HUD Secretary Pierce that the shortage of affordable rental housing will get worse in the future. (See Section B above)

Despite the clear and close linkage between the shortage of affordable housing and the increase in homelessness, federal assistance for assisted housing has been cut by 70% in the last five years. The availability of low-cost housing in the private market is also shrinking. (See Figure 1.)

RECOMMENDATIONS

1) Many approaches to dealing with the problems of the homeless are needed. However, the backbone of all of these approaches, for which there is no substitute, is expanded federal assistance for more permanent housing for low-income families and individuals. Only in this way can adequate funding be provided to address the long-term, permanent housing needs of those who may be temporarily homeless for a variety of reasons.

2) Such assistance needs to be provided to PHAs and other groups that are addressing a variety of special housing needs in their communities such as housing for:

- the physically and mentally handicapped;
- young mothers;
- alcoholits;
- the deinstitutionalized mentally ill; and,
- those in need of special education, job training and/or day care.

3) Operating subsidies for public housing should be supplemented in cases where PHAs are providing housing to special needs households. In addition, operating subsidy funds should be allowed [illegible] help subsidize the rents of essential service providers that wish t[illegible]ocate some of

their operations in public housing developments. [HUD currently forbids this by regulation.] In addition, PHAs that increase their percentage of single-room-occupancy (SRO) under HUD's proposed new rule, in order to serve "special needs" individuals, should be granted a higher level of per unit operating subsidy in recognition of those needs. (Also see Section 6 above)

4) Adequate modernization funding should be provided to enable the return of vacant public housing units to occupancy.

5) The Section 8 certificate program should be expanded and some of the certificates set aside to help meet the special short-term needs of the temporarily homeless.

6) In order to prevent evictions from both private and public housing for nonpayment of rent, HHS should require every state to participate in the AFDC Emergency Assistance Program, and to remove restrictions on the duration of such assistance.

7) Clearly, more is required than simple physical buildings in order to address the problems of the homeless. Homelessness, in fact, is usually a symptom of other problems.

Preventing homelessness is more effective than trying to "fix" it once it has occurred.

Public, private and community efforts need to be made:
- to maintain Single-Room Occupancy (SRO) buildings;
- to prevent loss of funds by doubled-up AFDC families;
- to assist those displaced by downtown or neighborhood renewal and gentrification activities; and,
- to require housing for the mentally ill who have been "dumped" through deinstitutionalization programs.

Coalitions must be established among all groups to establish a national housing policy and get housing production programs moving again. These programs should be extended to support a variety of "nontraditional" housing types in the community, such as SROs, whose demise contributes to homelessness.

In some cases, public housing units may be converted into shelters, with City Council and HUD approval.

However, to the extent that PHAs become involved in the problems of homelessness, they will need increased federal, state and local funding assistance so they may begin to address the special needs associated with the homeless. Services must be provided, along with shelters, temporary housing and assistance in finding permanent housing resources.

The activities that PHAs routinely perform every day is one of the biggest deterrents to a household becoming homeless, namely, providing an alternative place to live for a low-income household. Homelessness is on the increase, and it is not an accident that this trend corresponds to the enormous cuts in the federally assisted low-income housing programs over the past six years.

Q. Tenant management in public housing

Virtually all PHAs recognize a need for "tenant involvement" in guiding and steering the management and renovation of the developments in which they live. (See also Section K.4 above.) From time to time, the idea of tenant management of public housing developments is also recommended. This concept has many meanings for many different people. For some it means the development is turned over entirely to the residents, on a contract basis, and the tenants either carry out themselves, or arrange to have otherwise provided, all required management and maintenance functions, including the modernization of the units. A more limited concept of tenant management is where the residents contract to perform certain specifically-defined management functions on a routine basis, or supervise the performance of such limited functions by a sub-contractor.

Historically, some of the most well-known examples of tenant management of the "comprehensive" type have occured where conventional management by the Authority had failed and the development itself had sunk into severe disrepair and social anarchy. Under these circumstances, not only was anything better than the current Authority's management, but the residents themselves were the only ones adequately positioned to carry out the sometimes drastic measures required to return the developments to viability and habitability.

In less extreme circumstances, tenant management experiments have been more circumscribed, and relate to specific problems the development may be facing, e.g.: (a) security; (b) rent collections; (c) tenant selection; (d) evictions; and (e) setting priorities for maintenance and modernization activities to be carried out by the Housing Authority.

CLPHA Policy Recommendations

1) The general functions of management, maintenance and modernization of public housing developments are the responsibility of the Housing Authorities. However, when mutually agreeable to both Authorities and residents, there are circumstances when selected management functions may be advantageously contracted to tenant organizations either to carry out themselves or to sub-contract to other providers.

2) Tenants should always be involved in helping to establish priorities for management, maintenance and modernization activities in the developments in which they live.

3) No Authority should be forced into accepting tenant management for a development except in extreme cases where an emergency has been determined to exist due to the failure of the Authority to perform even the basic management services that the development needs.

4) Under ordinary circumstances, when a PHA contracts with a tenant organization to carry out certain management, maintenance or modernization functions, it shall be under the same terms, standards and criteria applicable to other developments where there is no tenant management, i.e. the funding levels for various activities shall not be

increased (or decreased) because there is tenant management.

5) Any operating or modernization funds going to developments with tenant management shall be channeled through the Housing Authority, not be provided directly to the tenant organization by HUD.

In general, tenant management is an option which PHAs and residents may currently pursue under existing statute and regulations. Proposals under consideration by Congress that would mandate such activities or provide funding directly to TOs for management activities are opposed by CLPHA.

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APPENDICES

THE RAPID INCREASE IN RENT BURDENS

Perhaps the most striking feature of the 1974-83 period in the rental housing market was the steady, rapid increase in rent burdens, i.e., in rents plus heating payments as a percentage of household income. The median rent burden went from 20 percent of income in 1970, to 27 percent in 1980, to 29 percent in 1983. Furthermore, the share of households with rent burdens below one quarter of their income dropped from 60 percent in 1974 to 40 percent in 1983. The share of households with rent burdens above seventy-five percent of income rose from 8 percent to 13 percent.

The changes in the rent burden distribution for the poorest households were particularly dramatic. In 1974, the median rent burden for households in the lowest income class was 35 percent of income. By 1983, the median rent burden for households in this income class had risen to 46 percent of income, and over one-quarter of the households in this class had rent burdens above three quarters of income. The median rent burden in the second income class rose from 21 percent of income in 1974 to 27 percent of income in 1983. In addition, this income class experienced a large increase in the number of households with rent burdens between 25 and 50 percent of income. By 1983, almost half of the households in this class had rent burdens of this magnitude. These shifts are illustrated in Exhibit 18.

While rent burdens rose in all locations, the increase was somewhat higher for residents of central cities, where rent burdens were the most onerous to begin with. The median rent burden for blacks remained about 3 percentage points higher than for whites.

These results must be interpreted with great care for two reasons. First, some households fall temporarily into the lowest income class because of illness or the loss of a job. For these households, high rent burdens do not persist but do add to the difficulty of recovering from unfortunate circumstances. On the other hand, high rent burdens represent an ongoing problem for the long-term poor.

Second, these rent burdens are based on households' cash income and therefore exclude income in kind, such as food stamps and Medicaid. Between 1974 and 1980, the in-kind benefits received by households, particularly low-income households, increased significantly. As a result, the figures cited above overstate the increase in rent burdens as a percentage of total income. While the exact increment to income from in-kind benefits is difficult to determine, one study estimates that including all such benefits reduces the median rent burden in the lowest one-fifth of the income distribution from 62 percent to 39 percent.[7] For the second fifth, the drop in median rent burden would be from 30 percent to 27 percent. In-kind income does make a difference, but even accounting for in-kind transfers, rent burdens in this lowest income class are now at extremely high levels.

It is important to note, however, that in-kind transfers stopped rising in 1980. Indeed, the real market value of non-cash transfers declined 4 percent between 1980 and 1983. The value of non-cash transfers per household declined by even more because the number of recipients also increased over this period.[8] The above results therefore understate the increase

SOURCE: "Home Ownership and Housing Affordability in the United States: 1963-1985," the 1986 report, by the Joint Center for Housing Studies of MIT/Harvard.

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[7] *National Association of Home Builders, "Low- and Moderate-Income Housing".*

[8] *See U.S. Census Bureau, "Estimates of Poverty Including the Value of Non-Cash Benefits, 1984".*

in rent burdens between 1980 and 1983.

Recent increases in rents as a fraction of income could, in principle, reflect improvements in housing quality. The evidence does not support this possibility. The number of households — particularly at the bottom of the income distribution — residing in structurally inadequate housing, has risen sharply. Furthermore, it appears that rents have increased the most rapidly for lower-income households. One recent study found that between 1974 and 1983, renter households with 1974 incomes below $5,000 saw a median increase in real rent of 9.9 percent and renter households with 1974 incomes between $5,000 and $10,000 saw a median increase of 9.6 percent.[9] Over the same period, real rents for households in the $20,000-30,000 income class rose just 2.3 percent and those for renters with incomes above $30,000 were unchanged. The higher rent burdens for low-income households therefore primarily reflect a rapid growth in the amount these households must pay for housing of any given quality.

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APPENDIX II

7/27/87

SUMMARY OF THE FIRST REPORT FROM THE VOUCHER DEMONSTRATION: A COMPARISON OF VOUCHERS WITH SECTION 8 CERTIFICATES.

1. Success rates.

Over-all success rates for vouchers were about the same as for Section 8 certificates: just over 60%. This finding contradicts the theoretical expectation for the voucher demonstration. By removing restrictions on rents and rent burdens, vouchers were supposed to offer a greater housing choice and therefore have a higher success rate. According to the report, "Proponents of a housing voucher program tend to see its greater housing choice as allowing recipients to more closely match their housing to individual housing needs....This view would expect that (vouchers) will lead to higher applicant success rates." (1) In fact, this did not happen.

2. Rent burdens. Under all currently existing low-income housing assistance programs, including Section 8 "existing" and public housing, the tenant contribution is mandated statutorily to be 30% of income. The distribution of rent burdens for voucher recipients in the demonstration was as follows: (2)

Rent/income ratio	% of recipients
Under 30%	46.39%
30-40%	27.74%
40-50%	14.10%
50%+	11.76%
Total	100.00%

3. Shopping incentive. One of the major advantages claimed by voucher proponents is that, unlike the case of Section 8 certificates, a voucher household that moves to find suitable housing will make a special effort to find such as housing at rent levels below the prevailing Fair Market Rents (FMRs), since it gets to "keep the difference." -- whereas in the case of Section 8 certificates the administering authority keeps the difference. There is no data in the report that makes the comparison between the rents of movers and the local Fair Market Rents; and since there surely would have been had the shopping incentive been proved to exist, it can be reasonably concluded that there was no such proof. The report does state: "It does not appear that the reduced out-of-pocket costs offered by (vouchers) to recipients who rent below the FMRs is in fact leading recipients to economize in rent." What this seems to indicate is a relative lack of units available to movers below current Fair Market Rent levels.

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(1) Source: page 7.
(2) Source: page 161 (categories combined)

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4. Cost of vouchers.

The average subsidy payment for vouchers ($299/month) is $23 higher than that for certificates ($276/month). This is because the savings which occur when a household rents below the FMR goes to the household, while such savings go to the government under the certificate program. [Note that this effect is different from the "shopper's incentive" discussed above. A household that stays in place can realize a "windfall profit" while staying in place, if its rent is below FMR, without doing any "shopping" at all.]

Conceivably the average cost per voucher (to the government) could increase at a slower rate than certificates in the future, but this would be because the voucher, as presently designed, is allowed a subsidy increase only twice in five years, while the certificate subsidy is increased annually. The "savings" would come at the expense of the tenants.

5. Rent increases.

During the course of the Demonstration, forty six per cent (46%) of the voucher households that did not move experienced rent increases of +$25/month or more, and 16% experienced increases of +$100/month or more. This is a potential danger sign, indicating that vouchers may stimulate rent increases.

6. Success rate by demographic groups. (*)

Households that had to move to meet program requirements had much lower success rates than those who stayed in place; and the former were much more likely to be very low-income; or minority; or dependent on welfare for some part of their income; or a combination of all of these. There appeared to be no difference between the success rates using vouchers or certificates among demographic groups:

	Success rates	
	Vouchers	Certificates
White	75.6%	71.2%
Black	57.0%	56.1%
Hispanic	46.6%	47.1%

7. Housing quality. The report did not provide any information on housing quality. Therefore, it is impossible to tell whether voucher recipients paying above FMR are getting better housing for their money or simply paying more for the same quality. This apparently is to be the subject of further research.

(*) Note that lived in adequate housing initially had higher success rates than those who did not; whites had higher success rates with both vouchers and certificates than did blacks and other races.

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APPENDIX III

SECTION 8 AND VOUCHERS

A. DIFFERENCES BETWEEN SECTION 8 AND VOUCHERS

There are two major types of differences between Section 8 "existing" certificates and Vouchers. The first is a conceptual difference: under Section 8, rents and rent/income ratios are capped and subsidy depends on rent; under Vouchers there are no caps and the subsidy is fixed. The second type of difference is an administrative one: HUD has designed rules for administering the Voucher program that are different from the administrative rules for Section 8. HUD's voucher rules tend to make Vouchers cheaper, according to HUD; but this is largely because of HUD's administrative fiat, not because Vouchers are in fact inherently less expensive.

The most important administrative differences are as follows (for more detail see attachment A):

1. Under Vouchers, the payment standard starts out at, but does not necessarily keep up with, FMR (this may have been changed by a NOFA published on 2/19).

2. The Section 8 ACC allows cost amendments; the Voucher ACC does not.

3. Funding reservations for Section 8 and Vouchers are made differently. Preliminary indications are that Voucher funding reservations may not allow for enough project reserves, and PHAs will have to issue fewer Vouchers to pay for subsidy increases in the final years of the ACC.

4. Under Section 8, exception rents of up to 110% of FMR are allowed; under Vouchers there are no exceptions to the payment standard.

5. Section 8 subsidies can be increased annually; Voucher subsidies can only be increased twice in 5 years.

6. Administrative fees are higher for Section 8 than for Vouchers.

7. The PHA can pay more damage claims to the landlord under Section 8 than under Vouchers, and can also reimburse a landlord for unpaid rent when a unit is vacated.

There are some additional important facts about the way the Voucher program is being run. First, HUD's funding allocations for Vouchers are based on its estimate of the cost of two bedroom units and the estimated tenant contribution. Because the average unit bedroom size usually ends up being larger than two bedrooms, and HUD sometimes miscalculates the tenant contribution, PHAs are only able to fund 70 to 80% of the number of units HUD originally stated the Budget Authority would cover.

Second, The ACC term for Vouchers is only 5 years. This makes it difficult to plan for their administration and will cause large numbers of Vouchers to expire in the early 1990s, when the first batch of Section 8 ACCs, begun in the mid-1970s, will also expire. Finally, the rulemaking for Vouchers has been done through NOFAs, not the standard procedure required under the Administrative Procudures Act (APA).

B. AUTHORIZING AND APPROPRIATIONS HISTORY OF VOUCHERS

1. Authorizations

Vouchers were originally authorized by the Housing and Urban-Rural Recovery Act of 1983. HUD has established two categories of Vouchers: (a) Rental Rehab Vouchers, which are similar to Section 8 Moderate Rehab; and (b) Freestanding Vouchers, which are like Section 8 existing. Freestanding Vouchers are used in four ways, as shown below:

1. Small Rural Demonstration- a demonstration program designed to test how Vouchers work in small rural areas.
2. Large PHA Demonstration- another demonstration to show how Vouchers work in large urban areas.
3. Formula Vouchers- these are given to families, not as a part of a demonstration, but as just another way of subsidizing rental housing.
4. Opt out, loan management, and PHA demolition Vouchers- these are given out to families involved in subsidized housing which is discontinued (236, 515, etc.), as an incentive for private developers to buy and develop HUD-owned land, and to families living in public housing units which are deprogrammed, respectively.

2. Appropriations

The following table shows the number of Vouchers for which funds were appropriated in FY84-87 and the Administration proposal for FY88:

	Rental Rehab	Small Rural Demo	Large PHA Demo	Formula	Opt Out, Loan Mng&Demolition
FY84	10,000		5,000		
FY85	30,000	3,000		4,300	1,000
FY86	14,585			20,914	961
FY87	10,000			36,500	1,000
FY88				79,000	14,000

C. THE LARGE PHA DEMONSTRATION

This program, run by Abt Associates, tests Vouchers by issuing them to households at the same time that a Section 8 Certificate of equal bedroom size is issued to another household. The decision on which household gets which kind of subsidy is totally random, and extensive data is kept on the subsequent experience of both households.

The first demonstration Vouchers were issued to PHAs in April, 1985. Soon thereafter the 20 PHAs in the demonstration had received roughly 200 Vouchers each. Data will be collected until sometime between November, 1987 and November, 1988, when the final report should be ready. The first draft of the first report of findings is currently being reviewed by HUD, and is expected to be released to the public by April.

The study's methodology should theoretically allow it to accurately test Vouchers, but there are two caveats one should keep in mind. First, HUD may extensively edit the results of the Demonstration before releasing them, so that they will support HUD's own determination to prove that "Vouchers work." (Another factor is HUD armtwisting . Some PHAs have recently reported that HUD officials have threatened their CIAP funding will be reduced unless they make the Vouchers in their Demonstration work!) Second, it is possible that, for a variety of administrative reasons, any major problems with Vouchers will manifest themselves only in the fourth or fifth year of the ACC, but the data from the study will only cover the first 3 years, at the most.

The early results of the Voucher demonstration indicate that the lack of caps on rent and rent/income ratio does in some circumstances allow tenants to move into better units in better locations than would be possible under Section 8. However, a substantial number of tenants end up paying over 40% of their income for rents, and some pay as much as 60%. Because the Voucher subsidy is fixed, some tenants are rewarded for choosing cheap units; however, most of these are people who were living in an acceptable unit before the program, not "smart shoppers".

Some very preliminary results from the Voucher Demonstration will be presented by panelistd at the CLPHA meetings at the end of February, including the Directors of Leased Housing for the Boston, New York City and Omaha Housing Authorities.

D. EHAP- WHAT DID IT REALLY SHOW?

Vouchers do not work as well for large families, minorities, the very poor, and people living in substandard housing.

The Experimental Housing Allowance Program, a $160 million experiment which compared different methods of subsidizing low income housing, is often cited by HUD as having proved that Vouchers work. Although there may be some advantages to Vouchers, the following data from EHAP show that they do not work well for everyone:

Success rates in EHAP for different groups

	PITTSBURGH			PHOENIX		
	number applying for subsidy	number finding acceptable unit	success rate	number applying for subsidy	number finding acceptable unit	success rate
HOUSEHOLD SIZE						
2 persons	153	100	65%	178	119	67%
3-4 persons	209	123	59%	245	154	63%
5-6 persons	86	44	51%	89	45	51%
7 or more	35	13	37%	59	19	32%
RACE OR ETHNICITY OF HOUSEHOLD HEAD						
non-minority	448	266	59%	439	289	66%
black	144	65	45%	41	16	39%
hispanic	-	-	-	182	86	47%
INCOME						
10,000 or more	-	-	-	11	5	43%
8,000 - 9,999	-	-	-	27	15	56%
6,000 - 7,999	63	34	54%	136	88	65%
4,000 - 5,999	190	119	63%	239	156	65%
2,000 - 3,999	264	145	55%	174	97	56%
1,000 - 1,999	73	33	45%	75	30	40%
QUALITY OF HOUSING AT OUTSET						
Meets program standards	39	39	100%	57	57	100%
Does not meet program standards	229	69	30%	240	106	44%

NOTE: The data listed here comes from the portion of EHAP which is most similar to today's Vouchers, the housing gap payments with housing quality standards in Pittsburgh and Phoenix. There are, however, significant differences between this part of EHAP and today's Vouchers. Nothing in EHAP resembled Section 8 as closely as this part resembles Vouchers.

SOURCE: Kennedy and MacMillan Participation under Alternatives Housing Allowance programs: Evidence from the Housing Allowance Demand Experiment. Abt Associates, Cambridge , 1980.

COSCAA

PROPOSAL FOR A REVITALIZED NATIONAL HOUSING POLICY

Presented to

The U.S. Senate Subcommittee on Housing
and Urban Affairs

Senator Alan Cranston, Chairman
Senator Alphonse D'Amato, Ranking Minority Member

By

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COSCAA

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COSCAA

Part I
COSCAA Housing Policy

As a cornerstone of a responsible national housing policy, COSCAA proposes a new partnership between the federal and state governments to help meet the acute housing needs of low- and moderate-income households. COSCAA's proposed State Housing Incentive and Partnership Program (SHIPP) provides federal funds to encourage states to contribute their own resources to help solve housing problems. Because both the nature of housing problems and the appropriate organizations to deliver housing resources vary enormously across the country, states are in the best position to blend federal resources and their own resources and capabilities with those of the private sector, the nonprofit community, and local government to address housing needs. The SHIPP envisions an even stronger state commitment to design, help fund, and implement housing policies and programs. Part II of this policy statement gives a detailed description of the SHIPP.

COSCAA's housing policy envisions the SHIPP as the primary national housing program for low- and moderate-income housing production. However, COSCAA's housing policy includes two other major elements. First, the federal government must continue its role in rental assistance by adequately funding rental assistance payment programs. Second, the federal government must maintain primary responsibility for ensuring that existing low- and moderate-income housing be sustained as fully and as adequately as possible for low- and moderate-income households. Thus, the federal government, working cooperatively with state and local government, the private sector, and the nonprofit community, must provide the financial resources necessary for dealing effectively with at-risk, privately-owned subsidized housing and to repair and maintain existing public housing.

Additionally, COSCAA advocates making federal housing programs that are not folded into the SHIPP more efficient; recommends changes in tax policy to make the low income housing tax credit more effective, continue the use of mortgage revenue bonds, and facilitate the use of state and local government general obligations bonds for housing; and encourages the maintenance of federal insurance and secondary market activities.

A. Prologue

The need for affordable housing in the United States is more acute than at any other time in the last 20 years. In 1983 an estimated 29 percent of the country's household experienced one or more of these serious housing problems: overcrowding, excessive costs, or substandard dwellings. The economic growth of many communities is threatened by the absence of housing affordable by workers. The time has come for a renewed major commitment to providing affordable housing for low- and moderate-income households. COSCAA believes that providing safe, sanitary, and decent housing for every American is essential for the health and well-being of our families and communities. Housing is a basic necessity that must be affordable if individuals are to have an opportunity to develop their talents and become productive citizens.

To help meet the nation's housing needs, COSCAA proposes that the federal government form a new partnership with states by creating a State Housing Incentives and Partnership Program (SHIPP), a program that would challenge states to combine creatively a variety of housing resources in response to each state's unique housing needs.

In the last six years over 100 new housing programs have been initiated by states using state funds. The experience of states in housing shows that state housing programs can effectively leverage public and private funds to increase the supply of affordable housing. However, state resources alone are not sufficient to solve the problem. A significant federal financial commitment also is required.

The basic objective of the SHIPP is to provide a federal financial incentive so that every state contributes its own resources to help solve housing problems. These resources include not just additional dollars but also the expertise of people, from state and local government, the private sector, and the nonprofit community, who know best the state's housing problems and how to solve them. What is anticipated is a stronger state commitment to design and implement a coherent statewide housing policy.

States are in the best position to design and implement housing assistance programs that must effectively respond to the wide variations in housing markets across the country. From Alaska to Arizona, from Texas to Minnesota, and even within states, conditions of supply and demand, price and income, require that housing programs be attuned to specific circumstances if public funds are to be used wisely. In some areas or times, homeownership programs may be best; in other areas or times, rental programs may be most needed. By stressing flexibility, the SHIPP encourages the creation of cost effective housing programs responsive to unique situations, including the proper mix of ownership and rental programs.

In addition to disbursing funds, states are in the best position to deal most effectively with a wide range of issues that affect housing affordability. Issues such as land use regulations, building code standards, real estate tax policies, and equal opportunity in housing, for example, have traditionally been the domain of state and local governments. The SHIPP can function as an incentive for states to work with local governments to take positive actions in all of these areas, actions that will result in more affordable housing. State governments look at a much broader housing market than do local governments. Additionally, states are often more removed from the intense details of site-related politics than are localities. States are in the best position to assess problems and establish priorities.

The availability of substantial federal funds for housing programs to be administered by the states can generate new grass roots support for housing programs. Stronger and better organized housing constituencies would most certainly appear in states where past public support for housing has not been salient. The SHIPP can create and energize a partnership between state and localities that in the long run would strengthen state and local involvement in and commitment to housing. States can energize the appropriate mix of local, nonprofit, and private sector participants -- whose relative strengths and capabilities vary enormously across the country -- to help meet housing needs.

States also are in the best position to achieve for the first time a coordination between the development and implementation of housing policy and the development and implementation of policies concerning welfare shelter allowances, job training, day care services, and other related services. The present arrangement of separate delivery systems for welfare shelter assistance and housing assistance, for example, is ineffective and inequitable. States can take creative steps to address these problems with the opportunity provided by the SHIPP.

COSCAA believes that homeownership and equal housing opportunities should be basic goals of national and state housing policies and that the SHIPP can help further those goals. Community revitalization and neighborhood stabilization are enhanced by a sense of ownership, whether it takes the form of single family units, limited equity cooperatives, mutual housing associations, or greater tenant participation in the management of rental housing. Housing funds are an important resource that can be used to preserve neighborhoods and prevent the displacement of the poor. The SHIPP is intended to support those objectives.

Regarding equal housing opportunity, states should support existing federal fair housing laws and work to adopt at least the equivalent of federal law as state and local policy. Where stronger enforcement mechanisms are needed to make equal housing opportunities a reality, those mechanisms should be adopted at the federal, state, and local levels.

One of the nation's most dramatic housing policy issues in 1987 is the ever increasing number of homeless families throughout the country. Partly because of the absence of enough affordable housing units, thousands of persons are being denied the opportunity to develop their abilities and contribute to their family's and society's well-being. This nation's housing policy must address these needs. It is time to invest enough resources in housing to meet one of the basic, fundamental needs of human beings, the need for shelter.

The problem of homelessness is directly related to another basic housing issue, the issue of long-term affordability. The threat of increasing homelessness is very real as federally-assisted units become eligible for conversion to market-rate housing. A commitment to long term affordable housing is an essential part of COSCAA's proposal. Spending additional funds to increase the supply of affordable housing may result in little achievement if in five or ten years residents can no longer afford to live in units initially assisted with public funds. Long term affordability must be a goal of federal, state, and local housing policy.

The SHIPP uses federal funds to challenge states to become full partners in initiating, administering, and helping fund programs that will increase the supply of affordable housing for low- and moderate-income Americans. COSCAA believes states are ready to accept that challenge.

B. State Housing Incentive and Partnership Program (SHIPP)

COSCAA recommends that the primary federal funding program for the production of rental and homeownership housing for low- and moderate-income households be the State Housing Incentive and Partnership Program. SHIPP would channel funds to the states for a variety of housing production-related activities for low- and moderate-income households in a way that would encourage increased state financial commitment to help meet housing needs.

SHIPP would be funded primarily through new funds appropriated by Congress, although COSCAA understands that several small-scale housing programs may be eliminated and their appropriations folded into the SHIPP. With initial funding at $4 billion the SHIPP would provide an effective and much needed complement to the Community Development Block Grant Program. In no way should the SHIPP even partly replace the CDBG program.

In the first year, 20 percent of the SHIPP funds would be allocated to the states on a housing needs basis. Fifty-five percent of the SHIPP funds would be allocated to states on a housing needs basis but would be accessed only by those states that contribute a threshold amount of own-source revenues to housing. This threshold amount would be based on a state's capacity to provide such financing. Twenty percent of the SHIPP funds would be made available on a pro-rated basis to those states whose own-source financial commitment exceeded their threshold amount. Five percent of the funds would be reserved for a Secretary's discretionary fund.

States would use the funds for a multitude of activities related to providing housing for low- and moderate-income households. Twenty percent of the funds would have to be used for households with incomes of 50 percent or less of median, 80 percent of the funds would have to be used for households with incomes of 80 percent or less of median, and 100 percent of the funds would have to be used for households with income of 110 percent or less of median.

States would have the ability to distribute funds among state agencies, local governments, public housing authorities, nonprofit organizations, and the private sector to achieve the purposes of the SHIPP. The governor would designate the state agency responsible for administering the SHIPP. States would be required to undertake a public process in developing their plan for administering the SHIPP, would be required to prepare a statement of housing needs and how its administration of the SHIPP would address these needs, and would be required to prepare reports on its implementation of the SHIPP.

Part II of this policy details the SHIPP.

C. Federal Rental Assistance Programs

The federal government must continue assuming full financial responsibility for present and future rental assistance programs, such as Section 8 certificates, vouchers, and the rental assistance program of the Farmers Home Administration. Although some states may elect to use part of their SHIPP and state resources to fund rental assistance programs on a limited basis, rental assistance programs are much more appropriately funded by federal resources.

As part of increased state involvement in housing and efforts to forge a coherent statewide housing policy, states should have the option of assuming the primary responsibility for allocating, if not administering, new rental assistance funds as well as current rental assistance funds when these are being ineffectively used. This includes the Existing Section 8 certificates, vouchers, and the FmHA's Rental Assistance program. States should work with public housing authorities and other organizations to develop the most effective statewide delivery and monitoring system possible. Additionally, as states gain experience in administering the SHIPP, they should increasingly have the option to administer and then fully use in a flexible manner federal housing programs such as FmHA 502, FmHA 515, and HUD 202.

D. **Existing Public Housing Stock**

COSCAA recognizes that housing managed by local public housing authorities plays an important role in providing affordable rental housing for low-income families. In hundreds of communities public housing provides an essential focal point for social services necessary to helping low-income families acquire the skills and resources necessary to enter the private housing market.

As it was originally designed, the public housing program required no on-going operating subsidies. Beginning in the late 1960s, however, a series of changes to the basic program destroyed its financial integrity. While some of these changes were sound in concept, the system put in place to compensate for them did not provide PHAs with adequate means to continue running financially viable housing projects.

Several changes are necessary for PHAs to regain their financial integrity. PHAs should be allowed to rent a greater portion than 5 percent of their units to households that have incomes between 50 and 80 percent of median. The current income limit of 50 percent or less of median income unduly restricts rent receipts and tends to concentrate very low-income, multi-problem households in a small geographical area.

Congress should direct HUD to review closely both the performance funding system (PFS) formula and the allowable expense levels used in the formula. Also, while the PFS does make allowances for "costs beyond the control" of authorities, time limits should be set for HUD to respond to requests from PHAs for this type of waiver.

Third, PHAs should be required to collect and manage reserve funds to cover major rehabilitation expenses. With PHAs managing reserve accounts, the need for a modernization program will gradually be reduced. However, until reserve accounts are built up, the federal government should maintain responsibility for adequately funding the modernization program.

Conversion of units to resident ownership should be permitted, but only if the conversion is accompanied by replacement rental units. Tenant management programs should also be encouraged as a means of empowering tenants.

COSCAA recognizes that new public housing units are desperately needed to house homeless families, as well as families living in over crowded conditions or paying more than 50 percent of their income for rent. Additional public housing units can be most effectively produced through the use of SHIPP funds.

E. Existing Subsidized Housing Stock

If nothing is done, up to 3.5 million rental units occupied by low- and moderate-income households may be removed from the housing inventory over the next sixteen years, cutting the supply of low income housing from 12.9 million units to 9.4 million units. At the same time that these affordable housing units are disappearing, the number of households needing low rent units is projected to increase by 5.3 million. If nothing is done, in sixteen years 8.8 million additional households may be in need of affordable housing -- 18.7 million Americans faced with the threat of homelessness.

To avoid the dramatic impact on families and communities of persons being evicted from their homes, COSCAA urges the federal government to act decisively to maintain the existing federally supported housing stock for low-income persons. The most cost effective method of housing low income persons is to maintain the housing units in which they now live.

Congress should ensure that extensive displacement of low- or moderate-income persons does not occur until Congress and other interested parties have a comprehensive agreement about the scope of the problem and solutions that will protect the tenants and other interests involved.

Intermediaries such as nonprofits, PHAs, states, and local governments should be used as much as possible to help derive and implement solutions. Each rental housing development has its own unique set of conditions affecting its marketability and the amount of funds required to preserve it as housing for low-income persons. Intermediaries can be very effective in achieving the goal of long term affordability.

Congress should consider the relative merits of the following examples of ways to deal with the long term affordability problem.

1. A right of first refusal by tenants or nonprofit organizations identified by tenants to purchase federally subsidized properties from their current owners when such owners opt to prepay their current mortgages can be established. The right to purchase the properties can be extended to state and local governments when the tenants either fail to exercise or waive their right.

2. Federal funds can be appropriated to provide grants or loans to nonprofit or governmental organizations to assist in the purchase of the properties. In return for this assistance, the purchaser would pledge to maintain the housing for low-income persons for the life of the buildings.

3. The current tax treatment of financial gain realised on the sale of low-income properties can be changed so that current owners have more incentive to sell to new owners who agree to maintain the units for low- and moderate-income use.

F. More Efficient Federal Programs

COSCAA believes that the delivery system of those federal housing programs that are not folded into the SHIPP should be made more efficient and responsive to the particular needs of individual states and to those administering the programs. Every effort should be made to allocate federal housing resources in a manner that is consistent with state priorities and in a manner that encourages the appropriate federal-state-local-nonprofit-private partnership.

COSCAA recommends that all administrative and regulatory requirements of existing federal housing programs be comprehensively reviewed with the objective of minimizing the administrative cost burden and eliminating program duplication. To achieve this goal Congress should direct HUD and FmHA to establish a national commission on federal housing administrative requirements. States and localities and agencies that administer the programs at the local level should be well represented on the commission.

Two examples illustrate the administrative burden imposed on states and other service providers. First, the Section 8 Existing Housing Program can take 20 pages of paperwork to qualify one person for a certificate. Second, the Section 8 certificates and voucher programs both subsidize the rent payments of low-income persons and have many similarities. Yet to administer the programs, the service provider must prepare two different sets of landlord and tenant information packages, two different sets of computer programs for issuing checks, and two different training packages for local administrators.

COSCAA urges that maximum effort be invested in reducing administrative costs by minimizing paperwork requirements.

G. Tax Policy

1. Low Income Housing Tax Credit

The legislation authorizing the low-income housing tax credit should be amended to make the credit a more workable tool for developing low income housing and to ensure its compatibility with the SHIPP. Congress should consider the following examples.

a. Under current law a project must be placed in service in the specific year in which it has been granted a credit allocation. If the project is not completed and in service by the end of the year, the credit allocation is lost -- both to the project and to the state which provided it. Congress should consider changing the law to allow the credit to be carried over to the next calendar year when at least half of the cost of a project has been incurred by the end of the allocation year and when the project is placed in service the following year.

b. The tax credit statute currently denies credit on the acquisition cost of an existing project if the project has changed hands within the preceding ten years. Congress should consider making the credit usable with any federally-assisted housing that is financially distressed or in danger of being converted to upper income housing. The entire inventory of federally-related housing should be viewed as a present or potential resource for lower income persons and a prime target for the use of the credit.

c. The statute sets limits on the income of low-income tenants at 50 percent or 60 percent of the area median, depending on whether the "20-50 test" or "40-60 test" is used. Rents are restricted to 30 percent of the applicable income ceiling. In the poorest areas of the country, particularly in rural areas, these restrictions combine to produce permissible rents so low as to make it financially impossible to support construction costs. Congress should consider permitting the use of the higher of the state nonmetropolitan or county median income as the basis for determining rent levels.

d. Congress should consider allowing states to set the value of the tax credit when the credit is allocated rather than having to wait until the project is placed in service.

2. Mortgage Revenue Bonds

The use of mortgage revenue bonds, which have proven to be effective in offering homeownership opportunities to limited income, first time home buyers, should be extended beyond the current sunset date as proposed in H.R. 2640 and S. 1522.

3. General Obligation Bonds

No restrictions should be set on the use of state or local government general obligation bonds to finance housing activities. These bonds, which are backed by the full faith and credit of states and localities and are retired by general funds, should not be constrained by the federal government.

H. Insurance and Secondary Market Activities

COSCAA supports maintaining and strengthening the federal loan insurance and guarantee programs of the Federal Housing Administration and the Veterans Administration, which have enabled millions of Americans who otherwise would not have been able to purchase a home to achieve the dream of homeownership.

COSCAA opposes efforts to privatize or to restrict or encumber the operation of these programs, such as through the imposition of restrictive volume limits, additional user fees, or income targeting.

The federal and federally sponsored secondary market institutions -- the Government National Mortgage Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation -- have greatly increased the availability of mortgage capital and reduced homeownership costs for millions of Americans. These institutions provide nationwide access to residential mortgage credit at a uniform cost and at all stages of the credit cycle. COSCAA strongly opposes any attempt to "privatize" unnecessarily or weaken any of these secondary mortgage institutions. Attempts to increase the cost of securities issued by FNMA and FHLMC through the imposition of user fees would diminish homeownership opportunities and reduce economic growth. Other restrictive proposals would be counter productive and undermine the expressed public purpose of these institutions.

I. Conclusion

The housing policy COSCAA proposes would substantially improve the quality of housing for low- and moderate-income households. It would orchestrate the most appropriate partnerships among the federal, state, and local governments, the private sector, and the nonprofit community. The policy builds on the housing initiatives of the recent past and seeks to make safe and decent housing a realistic goal once again for all Americans.

COSCAA

Part II
State Housing Incentive and Partnership Program
A Statutory Outline

A. Authorization

The Secretary is authorized to make grants to States and Indian tribes to carry out activities in accordance with this title. There are authorized to be appropriated for purposes of assistance under this title $4,000,000,000 for fiscal year 1989, $4,500,000,000 for fiscal year 1990, and $5,000,000,000 for fiscal year 1991. [Most of these funds would be new appropriations, but COSCAA understands that Congress may eliminate several small-scale housing programs and fold their appropriations into the SHIPP.]

B. Definitions

The term "state" means any state of the United States, or any agency or instrumentality thereof approved by the Governor, and the District of Columbia and the Commonwealth of Puerto Rico.

The term "general purpose local government" means any city, town, township, parish, village or other general purpose political subdivision of a state; Gaum, the Northern Mariana Island, the Virgin Islands, and American Samoa, or a general purpose subdivision thereof; a combination of political subdivision recognized by the Secretary, and the Trust Territory of the Pacific Islands.

The term "Secretary" means the Secretary of Housing and Urban Development.

The term nonprofit housing organization" means a 501(c)(3) organization that has the provision of housing services as one of its purposes of incorporation.

The term "instrumentality of local government" or "instrumentality of state government" means a special district or special authority established for a public service pursuant to local or state legislation.

The term "initial allocation" means the portion of State Housing Incentive and Partnership Program funds allocated among the states without any requirement for a state contribution.

The term "incentive allocation" means the portion of State Housing Incentive and Partnership Program funds allocated among only those states that contribute a threshold amount of own-source revenues for housing.

The term "partnership allocation" means the portion of State Housing Incentive and Partnership Program funds allocated on a pro rata basis only to those states that have exceeded their threshold contribution amount.

The term "threshold contribution amount" is the minimum amount of own-source revenue that a state must contribute to housing annually to receive its annual portion of the incentive allocation.

The term "own-source revenue" means direct appropriations from a state's general fund, authorizations to issue state general obligation bonds, and state levied fees and special taxes dedicated to housing.

C. Statement of Activities and Review

Prior to the receipt in any fiscal year of a grant under this act, the grantee shall have prepared a final statement of housing objectives and use of funds and shall have provided the Secretary the required certifications.

The statement of the projected use of funds shall consist of the policy the state will use in distributing funds, including administrative funds, to local general purpose governments, to nonprofit housing organizations, to private for-profit developers, to local instrumentalities and agencies, and/or to state instrumentalities and agencies. This policy shall reference the general extent and kind of housing needs that exist in the state, especially as those needs affect persons of low- and moderate-income. The policy shall also (1) outline the state's housing priorities, (2) briefly describe the state's overall strategy for addressing its housing needs, including the relationship to non-housing resources and policies, and (3) provide information on how the state will attempt to minimize the displacement of persons as a result of activities assisted with these funds and on how the state will assist those actually displaced as a result of these activities.

The grantee shall in a timely manner (1) furnish citizens and general purpose local governments information concerning the amount of funds available for proposed housing activities as well as the grantee's plans for minimizing the displacement of persons, (2) publish a proposed statement to provide citizens, local governments, and other interested parties the opportunity to review and comment, (3) hold one or more public hearings, (4) provide citizens and local governments reasonable access to records regarding the past use of funds under this act, (5) provide citizens and local governments with reasonable notice of proposed substantial changes in the final statement, (6) make the final statement available to the public, and (7) provide a copy to the Secretary along with the required certifications.

Before receiving funds under this act, the grantee must certify to the Secretary that (1) the grantee is in full compliance with the review requirements identified above and (2) the grant will be conducted and administered in conformity with Public Law 88-352 and Public Law 90-284 and that the grantee will affirmatively further fair housing.

D. Reporting Requirements

Each grantee shall submit to the Secretary, at a time determined by the Secretary through the process identified herein, a performance and evaluation report on the use of the funds made available through this act, together with an assessment by the grantee of the relationship of such fund usage with the grantee's final statement. The report on fund usage shall include information on the number and types of households served, including the income levels of those served. The report shall be made available to the public so that citizens and local governments have a chance to comment on the report prior to its submission as the grantee may determine. The report shall include a summary of any comments received from citizens, local governments, and other interested parties.

The Secretary shall consult with national associations of states, local governments, and other housing interests to develop uniform recordkeeping, performance reporting, and auditing requirements. Based on the Secretary's approval of these recommendations, the Secretary shall establish such requirements for use by the states.

The Secretary shall make such reviews and audits as may be necessary to determine whether the grantee has carried out its activities in a timely manner, whether the grantee has distributed its funds in conformance with its final statement, whether the grantee has carried out its certifications in compliance with this act and other applicable laws, and whether the grantee has made such reviews and audits as may be necessary to satisfy the requirements of this act and other applicable laws.

E. Revolving Loan Fund

States receiving funds under this act may draw down funds in a lump-sum basis to establish, either directly or through a recipient, one or more revolving loan funds in private financial institutions for the purpose of financing rehabilitation activities. These rehabilitation activities must begin within 45 days after receipt of such lump sum(s) and substantial disbursements from these funds must begin within 180 days after receipt of such lump sum(s).

F. Program Income

States may require as a condition of any amount distributed through this act that a recipient shall return to the state income realized from the amount distributed.

G. Setaside of Funds

The funds authorized under this act shall be divided into four parts as follows.

1. Twenty percent of the first year's funds shall be made available to all the states for their distribution and/or use for activities identified in this act. This portion of the funds shall be called the "initial allocation." The Secretary shall distribute in a state the amount of the initial allocation if a state elects not to distribute and/or use its initial allocation.

The amount of funds in this allocation shall remain the same in the next and subsequent fiscal years notwithstanding any increase in overall funding authorization for this act.

2. Fifty-five percent of the first year's funds shall be made available to those states that certify the expenditure of state own-source revenue in an amount equal to or greater than their threshold contribution amount. This portion of the funds shall be called the "incentive allocation."

The amount of funds in this allocation shall increase with each increase in funding authorization in the next and subsequent fiscal years by 11/15 of the amount of increase in funding authorization in each year.

3. Twenty percent of the first year's funds shall be made available on a pro-rata basis to those states that certify an expenditure of state own-source revenue in an amount greater than their threshold contribution amount. This portion of the funds shall be called the "partnership allocation."

The amount of funds in this allocation shall increase with each increase in funding authorization in the next and subsequent fiscal years by 4/15 of the amount of increase in funding authorization in each year.

4. Five percent of the first year's funds shall be made available to the Secretary to be used at his or her discretion for the following activities.

Up to one-half of this discretionary fund may be used by the Secretary to assist states in undertaking their responsibilities under this act. Provided, however, that the maximum amount of funds that may be used for this assistance shall decrease to 40 percent in fiscal year 1990 and to 30 percent in fiscal year 1991 and thereafter. Such assistance may include grants made directly to states and/or through contracts to provide (1) technical assistance in planning, developing, and administering funds provided through this act, (2) technical assistance to prepare states for administering funds provided through this act, including states that have temporarily declined to accept their initial allocation, and (3) data and information that will be useful in the implementation and evaluation of this act.

The Secretary may use up to 75 percent of the discretionary fund to provide financial assistance to projects that show great potential for demonstrating innovative and cost effective building materials or construction processes, for projects that may otherwise take an inordinate percentage of a state's allocation under this act, for projects that show unique and potentially transferable partnership arrangements, or for other innovative and creative projects that otherwise show potential for reducing housing costs or meeting unique housing needs.

In making decisions about housing project applications to fund, the Secretary shall heavily weigh the actions taken by the state in which the project is located to address the goals and meet the purposes of this act, other than the state's own-source financial commitment. The Secretary shall especially consider state actions that potentially lower housing costs through regulatory related activities, particularly those affecting the availability and cost of land for affordable housing, and to fair housing and other measures that reduce discrimination in the sale, rental, lease, or construction of housing.

The Secretary is also authorized to make grants from the discretionary fund to Gaum, the Virgin Islands, American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands.

The Secretary is also authorized to make grants from the discretionary fund to Indian tribes.

H. State Threshold Contribution

To receive funds from each fiscal year's incentive allocation, the governor must certify the amount of state own-source revenue that the state will spend on housing during the same period of time that the state distributes and/or uses funds from its incentive allocation. This amount must be equal to or greater than the threshold contribution amount determined for the state. Each state's threshold contribution amount shall be based on a measure or measures of its ability to pay. The states' total aggregate threshold contribution amount shall equal 10 percent of the total amount of funds in the incentive allocation, or $220 million. The states' aggregate threshold amount shall not increase with any increase in the aggregate total of the

TABLE I

STATE THRESHOLD CONTRIBUTION

	1984 Representative Tax System Capacity	1986 Per Capita Income Capacity	RTS/Per Capita Income Capacity
	($1,000)	($1,000)	($1,000)
ALABAMA	$2,700	$2,851	$2,775
ALASKA	$1,199	$581	$890
ARIZONA	$2,902	$2,686	$2,794
ARKANSAS	$1,627	$1,624	$1,625
CALIFORNIA	$28,767	$27,967	$28,367
COLORADO	$3,596	$3,076	$3,336
CONN	$3,821	$3,689	$3,755
DELAWARE	$705	$581	$643
FLORIDA	$10,980	$10,408	$10,694
GEORGIA	$4,892	$5,024	$4,958
HAWAII	$1,148	$978	$1,063
IDAHO	$826	$808	$817
ILLINOIS	$10,293	$11,240	$10,767
INDIANA	$4,401	$4,526	$4,463
IOWA	$2,308	$2,407	$2,357
KANSAS	$2,255	$2,244	$2,249
KENTUCKY	$2,639	$2,643	$2,641
LOUISIANA	$4,204	$3,168	$3,686
MAINE	$941	$940	$941
MARYLAND	$4,764	$5,256	$5,010
MASS.	$5,946	$6,519	$6,232
MICHIGAN	$7,776	$8,485	$8,130
MINNESOTA	$3,895	$3,972	$3,934
MISSISSIPPI	$1,654	$1,634	$1,644
MISSOURI	$4,119	$4,382	$4,250
MONTANA	$722	$635	$678
NEBRASKA	$1,474	$1,294	$1,384
NEVADA	$1,257	$913	$1,085
N. HAMPSHIRE	$1,110	$1,024	$1,067
NEW JERSEY	$7,883	$8,646	$8,264
NEW MEXICO	$1,275	$1,347	$1,311
NEW YORK	$16,032	$19,225	$17,629
N. CAROLINA	$5,006	$4,916	$4,961
NORTH DAKOTA	$627	$579	$603
OHIO	$8,895	$9,458	$9,176
OKLAHOMA	$3,432	$2,562	$2,997
OREGON	$2,324	$2,263	$2,294
PENNSYLVANIA	$9,596	$10,672	$10,134
RHODE ISLAND	$766	$892	$829
S. CAROLINA	$2,371	$2,389	$2,380
S. DAKOTA	$539	$527	$533
TENNESSEE	$3,504	$3,611	$3,558
TEXAS	$17,620	$13,940	$15,780
UTAH	$1,226	$1,141	$1,183
VERMONT	$467	$451	$459
VIRGINIA	$5,040	$5,556	$5,298
WASHINGTON	$4,016	$4,182	$4,099
W. VIRGINIA	$1,335	$1,228	$1,281
WISCONSIN	$3,885	$4,170	$4,028
WYOMING	$1,367	$663	$1,015

incentive allocation. However, any decrease in the aggregate incentive allocation shall result in a pro rata deduction of the states' total threshold contribution amount.

[NOTE: Table I illustrates three possible threshold contribution amounts for each state based on representative tax system capacity, per capita income capacity, and a combination of the two. Although data were not available for Puerto Rico and the District of Columbia, they are intended to be eligible grantees of funds through this act. The appendix provides a more thorough explanation of Tables I.]

Each state's threshold contribution amount must be provided from own-source revenues, such as direct appropriations from the general fund, authorizations to issue general obligation bonds, and state-levied fees and special taxes dedicated to housing. However, any fees or special taxes levied on the housing assisted through this act shall not be included in determining the state's threshold contribution.

While each state's threshold contribution must be spent on housing, these expenditures need not meet the eligibility requirements or other constraints of this act. State expenditures for developing state housing plans, undertaking housing market research, housing policy analysis, and housing needs studies, providing housing technical assistance, and administering housing programs may be considered in determining the state's threshold contribution.

Within 90 days of the expenditure of the last of the state's incentive allocation funds, or within the three-year anniversary date of the award of incentive allocation funds to the state, whichever comes first, the governor shall send to the Secretary a statement certifying that the state has met the own-source revenue requirements related to the state's receipt of incentive allocation funds. However, the Secretary shall grant one six-month extension to this date upon receipt of a written request for an extension by the governor.

If the amount certified by the governor is less than the state's threshold contribution amount, the Secretary shall withhold an amount equal to 1.5 the shortfall amount from the state's receipt of its next portion of the distribution of initial allocation funds. All such withheld amounts shall be pooled and distributed on a pro rata basis to all the other remaining states as an increase in their initial allocation amounts.

I. Allocation Of Funds To The States

The initial allocation and the incentive allocation shall be allocated to each of the states on the basis of a formula representing housing needs. The formula should use the latest

TABLE II

ALLOCATION OF SHIPP FUNDS TO STATES
$4 billion total

Formula I

- 40% Cost Burden
- 20% Rent Cost Index
- 10% Crowding
- 30% Inadequate Condition

Formula II

- 20% Cost Burden
- 20% Rent Cost Index
- 20% Crowding
- 40% Inadequate Condition

Formula III

- 40% Cost Burden
- 20% Rent Cost Index
- 5% Crowding
- 35% Inadequate Condition

Formula IV

- 40% Cost Burden
- 20% Rent Construction Cost Index
- 5% Crowding
- 35% Inadequate Condition

	Initial Allocation------- $800,000				Incentive Allocation ---- $3,200,000				
State	Formula I (1,000)	Formula II (1,000)	Formula III (1,000)	Formula IV (1,000)	Formula I (1,000)	Formula II (1,000)	Formula III (1,000)	Formula IV (1,000)	
Alabama	$13,790	$14,476	$13,954	$13,800	$37,920	$39,009	$38,372	$38,193	Alabama
Alaska	$1,710	$1,720	$1,697	$1,691	$4,712	$4,823	$4,668	$4,623	Alaska
Arizona	$9,384	$9,033	$9,021	$8,939	$25,876	$24,841	$24,867	$24,583	Arizona
Arkansas	$8,242	$8,699	$8,736	$8,740	$22,664	$23,921	$22,979	$22,934	Arkansas
California	$97,104	$91,633	$92,791	$92,465	$267,036	$250,381	$255,176	$254,279	California
Colorado	$9,074	$9,433	$9,927	$9,845	$27,152	$25,941	$27,290	$27,074	Colorado
Connecticut	$10,110	$9,792	$10,192	$10,224	$27,826	$26,920	$28,028	$28,117	Connecticut
Delaware	$1,710	$1,710	$1,783	$1,799	$4,712	$4,712	$4,903	$4,948	Delaware
Florida	$34,043	$33,401	$33,925	$33,321	$95,619	$90,972	$93,294	$91,634	Florida
Georgia	$18,606	$19,070	$18,772	$18,625	$51,200	$52,442	$51,623	$51,219	Georgia
Hawaii	$2,399	$3,337	$3,121	$3,170	$9,649	$9,170	$8,583	$8,718	Hawaii
Idaho	$2,774	$2,750	$2,730	$2,770	$7,630	$7,562	$7,506	$7,641	Idaho
Illinois	$41,200	$41,392	$41,555	$41,259	$113,222	$114,377	$114,276	$113,737	Illinois
Indiana	$15,096	$15,267	$15,110	$15,265	$41,514	$41,985	$41,051	$42,255	Indiana
Iowa	$8,560	$8,805	$8,074	$8,074	$23,562	$24,213	$24,004	$24,004	Iowa
Kansas	$6,691	$6,732	$6,701	$6,563	$18,401	$18,513	$18,640	$18,072	Kansas
Kentucky	$13,382	$14,309	$13,971	$13,856	$36,842	$40,011	$38,283	$38,103	Kentucky
Louisiana	$15,170	$15,369	$14,933	$14,884	$41,730	$42,016	$41,065	$40,931	Louisiana
Maine	$4,000	$4,701	$4,672	$4,721	$12,742	$13,028	$12,847	$12,982	Maine
Maryland	$13,219	$13,073	$13,342	$13,227	$36,353	$35,949	$36,689	$36,375	Maryland
Mass.	$23,419	$22,620	$23,301	$23,436	$64,403	$62,226	$64,627	$64,440	Mass.
Michigan	$30,715	$30,366	$30,633	$30,715	$77,067	$77,732	$78,742	$78,966	Michigan
Minnesota	$12,700	$12,273	$12,005	$12,566	$33,660	$33,750	$34,333	$34,558	Minnesota
Mississippi	$9,953	$10,706	$10,037	$9,972	$27,377	$29,441	$27,601	$27,422	Mississippi
Missouri	$16,075	$16,332	$16,377	$16,557	$44,207	$45,463	$45,037	$45,531	Missouri
Montana	$2,611	$2,734	$2,609	$2,609	$7,181	$7,517	$7,394	$7,394	Montana
Nebraska	$4,576	$4,639	$4,604	$4,700	$12,566	$12,813	$12,801	$12,925	Nebraska
Nevada	$3,019	$2,780	$2,930	$2,905	$8,303	$7,562	$8,078	$7,989	Nevada
New Hampsh.	$3,264	$3,372	$3,354	$3,321	$8,976	$8,998	$9,223	$9,133	New Hampsh.
New Jersey	$26,117	$25,499	$26,387	$26,385	$71,800	$70,013	$72,290	$72,360	New Jersey
New Mexico	$4,631	$4,725	$4,521	$4,553	$12,791	$12,993	$12,432	$12,522	New Mexico
New York	$84,040	$87,377	$86,409	$87,492	$231,172	$240,280	$237,819	$240,642	New York
N. Carolina	$19,787	$20,653	$20,135	$20,021	$54,363	$56,796	$55,371	$55,057	N. Carolina
N. Dakota	$1,930	$2,004	$2,044	$2,044	$5,386	$5,677	$5,621	$5,621	N. Dakota
Ohio	$32,600	$32,836	$33,003	$33,697	$89,760	$90,299	$91,838	$92,666	Ohio
Oklahoma	$9,792	$9,890	$9,649	$9,751	$26,928	$27,197	$27,085	$26,816	Oklahoma
Oregon	$8,894	$8,527	$8,968	$9,066	$24,460	$23,450	$24,662	$24,931	Oregon
Pennsylvania	$39,160	$40,237	$40,449	$40,743	$107,712	$110,652	$111,235	$112,043	Pennsylvania
Rhode Island	$3,672	$3,705	$3,790	$3,831	$10,098	$10,108	$10,446	$10,536	Rhode Island
S. Carolina	$10,526	$11,000	$10,500	$10,555	$28,940	$30,272	$29,116	$29,026	S. Carolina
S. Dakota	$2,366	$2,330	$2,472	$2,409	$6,508	$6,986	$6,799	$6,844	S. Dakota
Tennessee	$15,667	$16,222	$15,871	$15,790	$43,085	$44,611	$43,646	$43,421	Tennessee
Texas	$47,165	$46,667	$45,284	$44,925	$129,703	$128,334	$124,531	$123,543	Texas
Utah	$4,162	$3,974	$3,986	$4,002	$11,444	$10,928	$10,962	$11,007	Utah
Vermont	$1,920	$2,040	$2,040	$2,024	$5,386	$5,632	$5,610	$5,565	Vermont
Virginia	$17,922	$18,099	$18,291	$18,095	$49,368	$49,772	$50,299	$49,761	Virginia
Washington	$13,301	$12,860	$13,350	$13,330	$36,577	$35,365	$36,734	$36,734	Washington
W. Virginia	$6,773	$7,042	$7,007	$7,136	$18,625	$20,465	$19,409	$19,624	W. Virginia
Wisconsin	$13,872	$13,872	$14,109	$14,231	$38,148	$38,148	$38,911	$39,135	Wisconsin
Wyoming	$1,224	$1,265	$1,244	$1,230	$3,366	$3,478	$3,422	$3,377	Wyoming

data available from which housing needs of all the states can be adequately measured and should be weighted so as to reflect the intensity of the various components of housing need. However, no state's portion of the initial share shall be less than the amount of funds obligated or allocated to the state during the average of the last two years for which data is available from the programs terminated be this act.

[NOTE: Table II illustrates four possible allocations to each of the states. The allocation formulas are based on four measures of housing need: cost burden, housing cost, physically inadequate housing, and crowding. Although data for Puerto Rico and Washington, D.C. were not available, they are intended to be eligible grantees. The appendix provides more information on the allocation formulas.]

If a state does not qualify for receipt of its portion of the incentive allocation, that amount shall be distributed on a pro rata basis to all the states that do qualify. To qualify for this extra incentive allocation, the governor has 90 days from notice of its availability given by the Secretary to certify that the state's threshold contribution amount will be increased proportionate to the percentage increase in the state's incentive allocation represented by the pro rated extra incentive funds. On the expiration of the 90 days, any incentive allocation funds unqualified for shall be pooled and added to the partnership allocation and distributed to states accordingly.

The partnership allocation shall be allocated to a state on the basis of the proportion that the state's contribution in excess of the threshold contribution amount, including the amount as determined through any 90-day reallocation of incentive allocation funds as noted above, is to the aggregate of all states' contribution in excess of their threshold contribution amount. However, no state's partnership allocation share may be more than 12 percent of the total amount of partnership funds available for allocation. Such excess funds shall be reallocated on pro-rata basis among states whose share of the partnership allocation does not exceed 12 percent.

States receiving partnership allocation funds shall be subject to audit certification procedures and reduction of initial allocation funds similar to those required for incentive allocation funds.

J. Eligible Activities

Funds received through this act may be used or contracted to be used by states as grants, loans, interest subsidies, and/or loan guarantees and insurance.

Funds may be used to finance the repair or rehabilitation of publicly or privately owned residential properties, to finance the construction, reconstruction, or acquisition of privately or publicly owned residential dwellings, to finance the repair, rehabilitation, reconstruction, or acquisition of publicly or privately owned properties for use as privately or publicly owned residential properties, to purchase land to be used for privately or publicly owned residential properties, to develop land to be used for privately or publicly owned residential properties provided that such development is limited to on-site development, to reduce mortgage payments for owner occupants, to provide down payment or other assistance to first-time homebuyers, to reduce rental payments by tenants in privately owned residential properties, to facilitate reverse annuity mortgages to those 65 years of age and older, to provide seed money loans to nonprofit organizations, to provide mortgage insurance, and to provide overnight shelters for the homeless.

Up to two percent of the initial allocation and up to one percent of the incentive allocation may be used by states, local governments, and non-profit organizations to pay for the pro rata share of the cost of administering programs and projects funded by this act. The distribution of these administrative funds shall be determined by the state after consultation with local governments and non-profit organizations.

States receiving funds from the incentive allocation or the partnership allocation may set aside up to 10 percent of these funds in a governor's discretionary account. In addition to the eligible activities identified above, the governor's discretionary account may be used to provide housing counseling services and day-care and other services necessary for low-income or special needs populations to make effective use of their housing, to pay for the pro-rata share of the costs of off-site infrastructure, to strengthen and carry out fair housing and other housing anti-discrimination activities, to provide transitional housing and related services to the homeless, to provide permanent or transitional non-institutional housing for the mentally ill, the physically handicapped, alcohol and drug abusers, and other special needs populations as defined by the Secretary, and to provide congregate housing for the frail elderly.

For states receiving funds from the partnership allocation, up to one-half of the governor's discretionary fund may be used to finance housing research or housing demonstrations that otherwise do not meet the eligibility and income requirements of this act provided, however, that the research or demonstrations are designed specifically to encourage, promote, or test housing practices that may further the purposes of this act and/or may be used to provide technical assistance to local governments, nonprofit organizations, or other potential recipients of housing funds provided through this act.

For purposes of this section a 501(c)(3) not for profit corporation is considered a private organization.

K. Income Requirements

One hundred percent of the households directly benefiting from the housing provided through this act shall have incomes not higher than 110 percent of median income. A minimum of eighty percent of the households directly benefiting from the housing provided through this act shall have incomes of not more than 80 percent of median income. A minimum of twenty percent of the households directly benefiting from this act shall have incomes of not more than 50 percent of median income.

For purposes of this act, median income in jurisdictions located in metropolitan areas shall be the median income of the county in which the jurisdiction is located. Median income in jurisdictions outside of metropolitan areas shall the median income of the nonmetropolitan portion of the state. The Secretary shall adjust median income for household size.

L. Distribution Within A State

The governor shall identify the state official to receive initially funds from this act and to manage the funds according to the requirements of this act.

Funds provided through this act may be used by state agencies, by instrumentalities of states, by general purpose local governments, by nonprofit organizations, by private for profit organizations, and by instrumentalities of local governments to provide housing that meets the purposes and requirements of this act. A state may use and/or distribute funds provided through this act to meet its housing goals and needs as it determines provided that the state meets the review and activities requirements specified in this act.

States may entitle one or more local general purpose governments to receive a portion of the funds provided to the state through this act. If a state entitles one or more local governments to receive funds, the entitled jurisdiction is responsible for undertaking all the obligations for which the state would otherwise be responsible.

The entitlement by the state of one or more local governments shall not replace or lessen the state's requirement relative to meeting its threshold contribution amount in order to receive a portion of the incentive allocation or to exceeding its threshold contribution amount in order to receive a portion of the partnership allocation.

A state may require a local jurisdiction to contribute own-source revenues to be entitled to receive a portion of a state's incentive allocation or partnership allocation provided, however, that a local government's required own-source contribution shall not be more than one-half the per capita amount contributed by the state to receive its incentive allocation.

The entitlement of one or more local governments by a state shall not preclude the expenditure of funds received by the state through this act in such local jurisdictions.

The state shall require an applicant submitting a proposal to the state for financial assistance under this act to notify the chief elected official of the jurisdiction in which the project is located of the major characteristics of the proposal within 15 working days of submitting the proposal to the state. Prior to funding the proposal, the state shall respond in writing to the written comments or questions submitted by the chief local elected official.

M. Nondiscrimination

No person in the United States shall on ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with funds made available through this act.

N. Remedies For Noncompliance

If the Secretary finds after reasonable notice and opportunity for hearing that a grantee has failed to comply substantially with any provision of this act, the Secretary, until he or she is satisfied that there is no longer any such failure to comply, shall (1) terminate payments to the grantee, or (2) reduce payments to the grantee by an amount of such payments that were not expended in accordance with this act, or (3) limit the availability of payments to programs, projects, or activities not effected by such failure to comply, and/or (4) refer the matter to the Attorney General of the United States with a recommendation that an appropriate civil action be instituted.

O. Reporting Requirements

Not later than 180 days after the close of each fiscal year in which the assistance under this act is furnished, the Secretary shall submit to the Congress a report that shall contain a description of the progress made in accomplishing the objectives of this act and a summary of the use of funds provided through this act during the preceding fiscal year.

COSCAA

APPENDIX
Notes to Table I and II

Table I: State Threshold Contribution

COSCAA believes that a state's threshold amount, the amount of own-source resource that a state is required to contribute to housing to receive a share of the incentive allocation of SHIPP funds, must be based on a state's ability or capacity to pay.

The most accurate currently available measure of a state's fiscal capacity is the "representative tax systems "(RTS). The U.S. Advisory Commission on Intergovernmental Relations (ACIR), which has long advocated the use of the RTS, annually calculates each state's RTS.

Briefly, the RTS combines all sources of tax revenue into a composite index of state tax capacity. The RTS provides a comprehensive measure of each state's overall tax base by estimating the amount of revenue that each state would raise if each used an identified set of tax rates. Because the same rates and used for every state, estimated tax yields vary only because of differences in the underlying bases. The RTS is neutral among high and low tax states in its calculation of tax capacity. Table I uses the 1984 RTS as determined by ACIR.

The second measure of capacity used by Table I is state per capita income. Although per capita income is not a very good indication of capacity, it is a widely known, often used, and readily available measure. Table I uses the 1986 state per capita income as determined by the U.S. Bureau of Census.

The third and final measure of state capacity used by Table I is a combination of RTS and per capita income weighted equally.

The basis for determining the state threshold amount is the per capita own-source revenue appropriated for housing in the state of Maryland in 1986. Specifically, the threshold amount for each is based on the premise that each state should be able to put forth an amount of own-source revenue for housing approximately one-third of the per capita amount appropriated by Maryland in 1986, adjusted by state's ability to pay. Thus, Maryland's RTS and per capita income are used as an index of 1.0. The amounts so determined for each state are adjusted so that the sum total of all state threshold contribution amounts approximates 10 percent of the incentive allocation.

Table II: Allocation of SHIPP Funds to States

COSCAA believes that the allocation of funds to states should be based solely on housing needs. The latest available data on housing needs is the 1983 annual housing survey of the

U.S. Department of Housing and Urban Development (HUD). One interpretation of the data suggests that 8.9 percent of all occupied units are physically inadequate, 2.6 percent are crowded, and 12 percent are cost-burdened. (See, Iredia Irby, "Attaining the Housing Goal?" Housing and Demographic Analysis Division, Office of Economic Affairs, HUD, July 1986). Another interpretation suggests that the housing affordability problem affects 24.3 percent of all households and not 17 percent. (See, Anthony Downs, Low-Income Housing Problems and Policy Considerations: A Discussion Report Written for the Urban Land Institute, The Brookings Institute, Washington, D.C., June 1987, p.6.)

Depending on the interpretation of the 1983 annual housing survey data, the distribution of problem units is either 60 percent cost-burdened, 32 percent physically inadequate, and 8 percent crowded, or 68 percent cost-burdened, 25 percent physically inadequate, and 7 percent crowded.

Unfortunately, HUD's annual housing survey cannot be used on a state basis because its methodology limits analysis only to the more populous states. Thus, Table II generally uses data from the 1980 census.

In Table II, Formula I, Formula II, and Formula III each use the same four variables, but the variables are weighted differently.

Formula I approximates the first interpretation of the distribution of housing problems: "Cost-burden" represents a state's share of renters paying more than 30 percent of their for gross rent and homeowners paying more than 35 percent of their income for principal, interest, insurance, taxes, and utilities. The variable is weighted 70 percent for renters and 30 percent for homeowners. "Cost-index" is a ratio of a state's weighted average fair market rent to the national weighted average fair market rent, 1985, for two bedroom units. This variable is used both to update in a surrogate fashion the 1980 data on Cost-burden and as a variable in and of itself. Together the two variable account for 60 percent, 40 percent for Cost-burden and 20 percent for Cost-index, of the weight of formula I.

"Crowding" is the share of a state's households, renter and homeowner, who are living at a density of more than 1.01 persons per room. It is based on the 1980 census.

"Inadequate Condition" is the state's share of housing that is physically inadequate. In part this is a surrogate variable comprised of three factors: (1) renters in poverty living in pre 1940-units (weighted 50 percent), (2) renters and owners without plumbing (weighted 25 percent), and (3) owners in poverty (weighted 25 percent).

According to one interpretation of the 1983 annual housing survey, Formula I may underweight the cost-burden problem, but COSCAA's policy calls for the federal government to fund adequate rental assistance payment programs, so this under weighing is not serious.

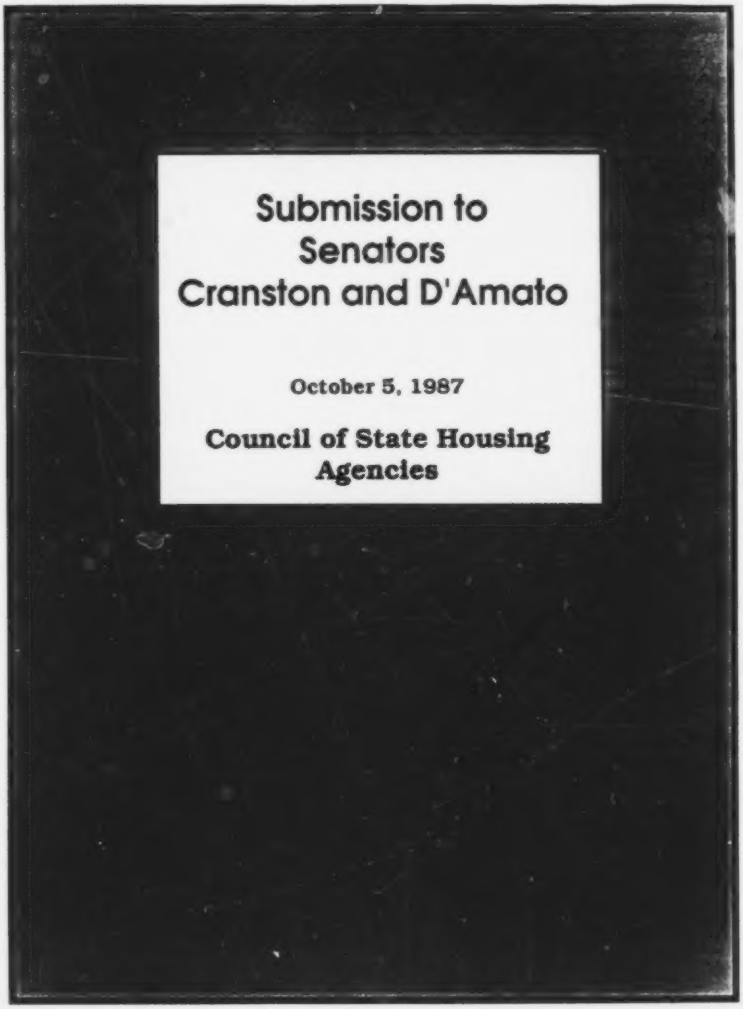
Formula II reduces the weight given to the Cost-burden and Cost-index variables and increases the weight given to the Inadequate Condition variable. This reflects not only the federal responsibility for rental assistance payment programs but also the fact that Inadequate Condition is probably the most accurate of the four housing problem variables.

Formula III reduces the weight given to crowding and gives more weight to Inadequate Condition. This reflects the fact that crowding is the weakest variable -- it may change radically over a short period of time and may tend to represent in part traditional patterns of living rather than housing problems per se.

Formula IV keeps the same weights as Formula III but slightly alters the Cost-index variable by including a factor that represents a weighted ratio of a state's cost of constructing a unit of public housing compared to the weighted national average (New York state is adjusted so that New York city comprises only 40 percent of the state's average). This factor is based on HUD's Cost Containment Standards for typical residents of public housing. The Fair Market Rent index is weighted 75 percent and the Construction Cost Containment Standard is weighted 25 percent.

For most states, the four formulas give fairly similar allocations. The exceptions occur among several states whose housing affordability problems are relatively very small and whose physically inadequate housing conditions problems are relatively very large. All the formulas allocate funds based solely on measures of housing needs.

Taken together, Table I shows that states with low fiscal capacity have to put up a lesser amount of own-source dollars on a per capita basis and Table II shows that states with more severe housing problems receive more SHIPP funds on a per capita basis, other things being equal.



Submission to
Senators
Cranston and D'Amato

October 5, 1987

Council of State Housing Agencies

Executive Summary

A half-century has passed since the Congress first committed the resources of the nation to expanding homeownership opportunities and improved housing quality. This historic commitment to housing has recently been tested as housing expenditures have suffered dramatic reductions and the use of the tax incentives has been curtailed. The efforts of Senators Cranston and D'Amato are thus both timely and valuable. A reaffirmation of the nation's commitment to housing is in order. More important still, is the opportunity to reassess the strategy for meeting the policy goals.

State Housing Finance Agencies (HFAs) bring an important perspective to this task. Over 900,000 homes for predominantly first-time homebuyers and over almost 650,000 units of rental housing been financed for by HFAs. Responding to opportunities and their public purpose mandate, HFAs are both providing an essential conduit for mortgage capital and participating as an entrepreneurs in the housing market. The latter HFA role has necessarily evolved as federal efforts to stimulate private sector activity have diminished.

To a greater extent than any time in the past two decades, a public role in housing is needed. Although this nation is generally the best housed in the world, due largely to the strength of a robust housing industry, the private sector alone cannot meet the full housing needs of the nation. Evidence of this is the declining rates of homeownership. Families who only a decade ago could expect to purchase a home now find the "American Dream" to be just that . . . a dream. Moreover, increasing numbers of poor Americans cannot find affordable rental housing. A high rent burden exists at a time when the overall supply of low-rent housing is declining. It is not surprising then that homelessness has emerged as a national embarrassment. Equally troubling is the sight of "ordinary working-people" who find themselves unable to afford housing which the market provides, yet ineligible for or unable to secure housing program assistance.

A Basis for Public Involvement in Housing

Public sector involvement in housing has made a difference in expanding housing opportunities and improving the quality and availability of housing. Whereas once, basic housing quality was the paramount policy concern, the nature of the housing problems have changed. Housing affordability and the related problem of availability represent the fundamental housing concerns today. As was necessary a half-century ago, a concerted effort on the part of the public and private sectors is needed today.

The fundamental national housing policy goals have remained virtually unchanged over the decades . . . expanding opportunities for homeownership and ensuring an affordable/available supply of safe, decent, sanitary rental housing. But, after a period marked by declining federal involvement in housing, diminished federal capability, and the prospect of tight resources in the coming years, careful thought must be given to devising the strategy for reaching these goals and the implementing vehicles.

A Strategic Approach

The Council of State Housing Agencies recommends a new strategic approach based upon fundamental principles. First, increased public resources are needed. Any ideas that cheap solutions exist are fancy. Second, the base of existing federal housing programs must be improved as a foundation for future efforts. Third, new resources and existing programs must be integrated and coordinated for maximum impact. No longer should direct expenditure, tax expenditure, and credit and secondary market support programs be viewed in isolation. To do so squanders the potential for a geometrically expanded impact. Fourth, program flexibility is vital. The diverse nature of housing problems across the county renders inadequate any generic national solutions. Finally, federal resources must leverage state and local resources, and the public resources must leverage private for- and non-profit resources.

States As Program Delivery Vehicles

State financial resources are limited. They are not equal to the problem. Nonetheless, federal resources in the form of new and improved existing programs can be combined with state resources. Thus a key element of the housing strategy should be an expansion of the state role. This expansion begins with a more effective use of state housing finance agencies (HFAs). The traditional role of HFAs as conduits of capital in the national housing finance system should be strengthened. Moreover, HFAs are experienced in administering and allocating federal resources. Lastly, as an innovative and creative delivery vehicle, their carrying capacity can be efficiently expanded, allowing a greater portion of federal resources to go more directly to meet state and local housing problems.

New Housing Initiatives

CSHA recommends that Congress create a Housing Affordability Fund through annual appropriation. Funds should be awarded to states on a formula basis to expand homeownership and improve rental housing. Uses of the funds should be prescribed and participant eligibility should conform with the tax-exempt bond programs which states operate. A special "Challenge Grant" portion should be created to encourage additional state resources, reward innovative programs, and target special housing problems.

To demonstrate the opportunity to integrate and coordinate resources, an HFA/ Farmers Home Administration (FmHA) Demonstration Program is recommended. HFAs would assist FmHA by providing services in support of FmHA programs. The housing and financial skills of HFA staffs would thereby augment FmHA field office operations.

CSHA also recommends passage of Congressional legislation aimed at expanding the Nehemiah Plan nationwide, creating an Individual Home Account . . . the "Homebuyer IRA," and expanding nationwide the HUD Distressed Project Demonstra-tion.

Building Upon the Existing Program Foundation

The fundamental principals set-forth above should guide the strategy for delivering existing federal housing programs directed toward expanding homeownership opportunities and rental housing affordability/availability. Improvements to these programs are needed both in response to changing housing problems and to alleviate problems created by recent changes in federal law.

Perhaps nowhere is the latter problem manifest more clearly than in the federal tax-expenditure programs. Too frequently, the full programmatic impact of changes are not anticipated or understood. Mortgage Revenue Bonds (MRBs), Multifamily Development Bonds (MFDBs) and the new Low-Income Housing Tax Credits (LIHCs) each suffer from twin goals of Congress to limit the revenue expended and to increase program targeting. The result are programs which are too constrained to accomplish the desirable program targeting goals. CSHA recommends changes to these programs to improve their effectiveness.

Secondary market and credit support programs are vital to continued smooth functioning of the housing markets. These institutions facilitate flow of private capital to housing markets which would otherwise not be served. Especially when operated in tandem with MRBs, MFDBs, and LIHCs, federal secondary market and credit support programs further the national housing goals. Recommendations to improve these programs are also proposed.

Finally, CSHA proposes major changes in existing federal direct expenditure programs which have suffered dramatic reductions in recent years. A hybrid Rental Assistance program derived from the existing Section 8 Certificate and Voucher programs is proposed. Nowhere will the need for combined program approaches built around direct expenditures be more important than in the up-coming efforts to arrest the declining assisted rental inventory.

No reading of the current situation can ignore the limited potential of individual programs relative to the magnitude of the nation's housing problems. Progress will be made in meeting the nation's housing policy goals only if efforts and resources are coordinated and combined. States are prepared to deliver programs and contribute resources, but need the flexibility to craft appropriate program solutions. A firm, significant commitment of federal resources is needed, both to leverage those of states and locals, and especially those of the private sector.

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Section 1
The National Housing Policy

With the creation of the Federal Housing Administration fifty years ago, Congress established housing as an issue of national concern. Now, as the national housing policy is revisited, it is important to reaffirm those basic policy goals. It is even more important to devise an updated strategy for implementing the national housing policy.

An Historic Commitment to Housing

In 1934, recognizing that many families were losing their homes and others had lost any hope of ever owning one, Congress passed landmark legislation creating the Federal Housing Administration. Throughout the New Deal, a variety of housing programs were developed which still shape the public sector's involvement in housing.

In 1949, Congress clearly articulated the nation's housing goals:

> "[That] the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing...and **the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family...**"

In an effort to implement this national housing objective, Congress employed a strategy that relied upon the following premises:

- private enterprise should be encouraged to serve as large a part of the total need as possible;
- governmental assistance should be utilized wherever feasible to help private enterprise serve more of the need;

- state and local entities would be encouraged to assist by undertaking programs of housing and community development;
- governmental assistance should be provided to eliminate substandard and inadequate housing and neighborhoods and to assure that adequate housing is available to families who cannot secure it in the private sector;
- governmental assistance should be available for decent, safe and sanitary farm dwellings where the farmowners' credit and resources are insufficient to secure them on their own.

These national housing goals, and the basic approach to their implementation, have been reaffirmed by Congress at several junctures over the last five decades.

Housing "Have-Nots"

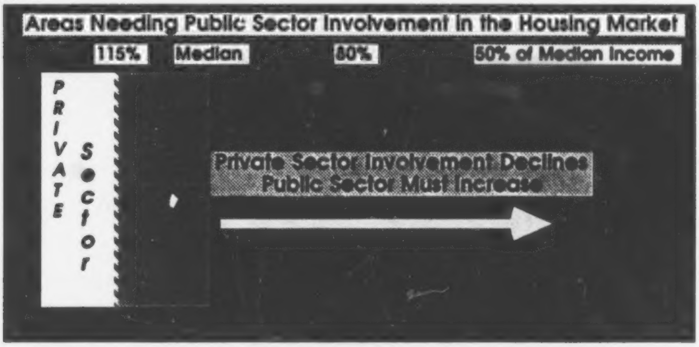
When the first national housing policy statements were articulated in the Great Depression, the policy makers felt government had to act where "private enterprise" was unable. The programs created to implement this policy covered the entire spectrum of housing needs beyond the private sector housing markets; including expanding homeownership opportunities, stimulating private rental production of low- and moderate-income units, assisting low-income renters, providing public housing, and more recently, providing some funding to house the homeless.

Despite the appearance of a robust housing industry, the private sector by itself still cannot meet the entirety of the nation's housing needs. As Dr. James Brown, the Director of the Joint Center of Housing Studies at the Massachusetts Institute of Technology and Harvard University, has testified to Congress, there exists a growing segment of the nation's population who are "housing have-nots."

The assertion that there are "housing have-nots" is based upon the private sector's limited ability to meet the full housing needs of the nation. The needs of the very low-income are all too apparent. People affected by this problem are frequently the blue-collar tradesmen, teachers and low-level white collar workers who are simply trying to get ahead. We are witnessing an erosion in housing affordability that directly affects families who only a decade ago had promising prospects.

In graphic form, Chart 1 below illustrates that where the ability of the private sector ends, public resources are needed. Farther down the income scale, a greater amount of public sector involvement and resources are needed either to encourage private sector activity, or ultimately to provide needed housing.

Chart 1


Areas Needing Public Sector Involvement in the Housing Market
115%
Median
80%
50% of Median Income
PRIVATE Sector
Private Sector Involvement Declines
Public Sector Must Increase

In many ways, the array of housing programs which have been created reflect a tacit understanding of the public sector role. For example, funds from the mortgage revenue bond program are available in certain targeted (economically distressed) areas to prospective homebuyers whose incomes are as high as 140 percent of median. Any prospective first-time homebuyer with an income of up to 115 percent of the state or area's median can receive mortgage revenue bond assistance with their home purchase. Thus a family with a combined $30,360 income in a small town in Texas can take advantage of this program. Public policy goals are met because many of these young families could not purchase a home without the assistance of lower-interest rates and an available loan source.

Likewise, households with incomes of only 80 percent of the median income have traditionally been eligible for assistance in securing suitable rental housing. Unfortunately, in recent years, the income limits on many federal assistance programs such as Section 8 Rental Assistance have been lowered to 50 percent of median income. This change in eligibility has meant that a family with an income of $10,500 retains eligibility for rental assistance in rural Arkansas, while the family next door with an income of only $16,000 is now ineligible.

Implicit in the crafting and evolution of housing programs over the years has been a recognition that the public sector's role begins at the point where private market activity alone is unable to meet housing demands. Much of the debate has focused upon the type and level of public support that is needed to serve those with lower incomes. As incomes decrease, the economic viability of private sector involvement decreases as well. Today, it is important to refocus national housing policy on the whole spectrum of housing needs unfulfilled by the private sector, a broader spectrum than has been recently acknowledged.

National Housing Policy Goals

Today, our fundamental housing policy goals remain as easily recognizable as they were fifty years ago.

First Expanding opportunities for homeownership, and

Second Ensuring an affordable/available supply of safe, decent, sanitary rental housing.

Nonetheless, changing perceptions are coloring our view of national housing policy. Over the years there has been a growing recognition that many Americans have special housing needs which the public sector must consider. These people include the homeless, the elderly, the handicapped, and migrant farmworkers.

The following concerns make the efforts to implement a national housing policy more difficult.

- Programs have been targeted so narrowly that many households find themselves both ineligible for assistance and simultaneously unable to access the private housing market. This current policy trend represents a form of programmatic "triage" that is an inadequate strategy for meeting the nation's housing goals.

✦ Our society has historically placed an extremely high value on homeownership and on safe and decent rental housing. If families cannot afford to purchase or rent quality homes, this important social value is placed in jeopardy.

Fifty years of housing program history affirm that government can be a catalyst for improving the nation's housing opportunities. Hence, it is necessary to reaffirm the nation's housing goals. Beyond reaffirmation, it is essential that we reassess our strategies for implementing these goals. This reassessment must consider the delivery of housing programs. Unlike the past, implementing strategies must consider an increasing role for the states.

An Increasing Role for the States

As domestic matters gained more and more prominence in the post-war era, states began to take an active role in housing policy, an area that historically had been the exclusive purview of federal and local governments. The need for state involvement became more and more apparent throughout the 1950's so that by the early 1960's they began to form housing finance agencies (HFAs). The mission of HFAs was to facilitate the flow of mortgage capital into the state. This money would then be used to provide below market mortgages to developers of low-income rental housing. The early HFAs were so successful that the Housing Act of 1968 encouraged states to create them as a means of leveraging federal rental housing dollars. States were also able to provide mortgage capital for low- and moderate-income first-time homebuyers through these agencies.

Today 48 states, the District of Columbia, Puerto Rico and the Virgin Islands have housing finance agencies. Their collective roles as providers of low- and moderate-income housing continue to grow. Illustrative of this is the statistical growth over the six-year period from 1980 to 1985. By 1980, HFAs had cumulatively provided only 210,800 single family mortgage loans. Through 1985 the HFAs had provided 889,866 such loans. Seventy-six percent of the mortgage loans issued by HFA's have been closed since the beginning of the decade.

By the end of 1984, HFAs had provided 476,999 mortgage loans to homebuyers. By the end of 1985 this number had grown to 889,866. Through 1984 the average purchase price was $51,931; in 1985 it was $55,343. Average borrower income through 1984 was $25,896; in 1985 it was $26,713. Interestingly, 1985 borrowers paid down 8.0%, while the prior year average shows 9.7% was required.

The rental housing production numbers are just as impressive. Through 1980, 210,800 units of rental housing had been financed by HFAs. By 1984, the number had risen to 446,594 units of rental housing. After fiscal year 1985, this number was 636,515, representing a threefold increase in rental housing units financed by HFAs during a six year period.

While it would be naive to believe that HFAs could continue to shoulder such a large share of the burden, especially in light of the Tax Reform Act of 1986, their record of high quality public purpose growth is indicative of the ever expanding willingness and capability of state governments to assist in the provision of affordable housing. As federal resources for housing have diminished, state HFAs have increasingly turned to new program initiatives developed at the state level to provide affordable housing opportunities for low- and moderate-income renters and homebuyers.

The number of new homeownership program initiatives are indicative of the evolution within HFAs away from homogeneous approaches of service delivery in favor of multiple programs which match specific local market areas or the special needs of a unique population. These new programs stress a partnership approach such as that of the public and private sectors, or various levels of government.

The integration of such scarce resources promotes greater program efficiency, and allows for deeper targeting. For example, Illinois and West Virginia have developed a new construction program with the state Home Builders Association; Wisconsin developed a risk sharing program with a private mortgage insurance corporation; Washington contracted with a private mortgage service corporation to administer the Mortgage Credit Certificate Program; Maine, Rhode Island, Wisconsin, Minnesota and New Jersey are working with nonprofit organizations; and, Massachusetts, New Jersey and Virginia are working with local units of government.

A common technique HFAs use for providing affordable homeownership opportunities for lower income households is to combine tax-exempt mortgage revenue bonds with interest rate subsidies that permit targeting to a lower income market population.

The 1986 Tax Act had a profound affect on the HFAs' ability to develop and finance multifamily rental housing. While the full ramifications of the Tax Act on rental housing are still unknown, the resolve of HFAs to continue to provide affordable rental housing opportunities for low- and moderate-income families has not waivered.

Four states have developed rental housing production programs which feature the new Low Income Housing Tax Credit (LIHC) as a critical component . Rhode Island is combining the tax credit with multi-family development bond financing and zero percent second mortgages, Texas is utilizing the tax credit to address the rental housing needs in the Rio Grande Valley of south Texas which suffers the highest incidence of poverty in the nation. Washington has implemented a comprehensive marketing and training program which has generated applications for forty-one percent of the state's credit authority for 1987, and West Virginia has combined LIHC with State Investment Board funds to initiate a substantial rehabilitation program to convert downtown structures to rental housing

HFAs have proven their capacity to recognize and respond to innovative housing efforts that would not be possible without the creative use of state and/or agency funds. Conventional financing is appropriate for most housing activities, but private lenders are often unable or unwilling to provide the specific type of financing needed for many low- and moderate-income housing projects, especially the financing for pre-development and construction activities. Agencies in Ohio and California have implemented development loan programs and Illinois has created a construction loan fund. Following the example of Minnesota, home repair loan programs have been established in Michigan and North Carolina. New Jersey created a separate corporation to assist developers of low-income housing in financial packaging and to be a developer of "last resort" if necessary. Unique permanent financing programs have been created by Missouri and Arkansas, involving a "blended rate" mortgage pool to lower interest rates, and by Connecticut, which has initiated a statewide reverse annuity mortgage program for the elderly.

Programs to increase minority and women business and lender participation in state housing finance agency activities are underway in California and New York. In Rhode Island the agency is offering small grants to distressed families in an effort to prevent homelessness and is offering loans to nonprofit organizations to acquire valuable land for future low income housing developments. Oregon is providing grants to support the creation of new group homes for disabled individuals. Kentucky has operated an affordable housing construction training program for Vietnam Veterans that since 1984 has provided better housing for over 500 households and valuable job training and career opportunities for almost 200 veterans.

Four HFAs have obligated significant agency reserves to create a long-term, flexible financing source for low- and moderate-income housing programs. Rhode Island is using funds for special program efforts. Virginia set aside $45 million in agency reserves to create the Virginia Housing Fund, the nation's largest HFA capitalized revolving loan fund. During the last four years the "Dividends for Wisconsin" program has made available $33 million from agency reserves to fund a variety of housing and economic development programs and in Maryland $16 million in agency funds have been combined with $200 million in state funds to support nineteen housing programs.

State HFAs are often the only source of assistance available for those most in need of special housing. The plight of the homeless has dominated current policy discussions. In response, HFAs have created a variety of programs. In addition, housing programs have been created to assist single parent households, in Kentucky and Missouri, the handicapped and the elderly.

These, and other new initiatives developed, and often funded by the states, illustrate the capacity and willingness to implement national housing policy goals. They could not occur at a better time, for housing trends of the past few years are troubling and are reason for public concern.

Section 2

Evidence of Growing Housing Problems

The nation's housing problems have been changing. Until now, the fundamental problems of housing related to *quality* . . . the absence of indoor plumbing, inadequate heating systems, severe over-crowding and basic structural problems. Now, the problems are more related to *quantity* . . . involving the *availability and affordability* of housing rather than quality of life style. The scope and magnitude of the availability/affordability problem differ from state to state, area to area. The great challenge in forging effective national housing policy today is envisioning policies and programs that can effectively address the diversity and disparity of multiple housing markets.

Although housing quality continues to be a concern, the presence of code enforcement and the funnelling of major federal dollars for housing production in years past have dramatically reversed this situation. Today's central problem is the disparity between housing costs and incomes resulting in an inability of many to afford housing.

Within both the homeownership and rental markets, the private sector's ability to meet housing demand has eroded as the costs of producing housing have risen at rates faster than peoples ability to for it. This situation creates a duality of housing need: affordability and availability.

Concurrent with the rise of the affordability problem has been a dramatic decline in the level of federal support for housing. Additionally, those federal dollars which remain have been targeted to lower income households more than ever before. While it is clear that the housing needs of the low and very low-income funds are significant and will continue to exceed the availability of public resources, it is also true that housing problems of affordability and supply are not restricted solely to the lowest income households.

Changes in the housing industry and mortgage markets, and redirection in federal assistance have placed many households in a "housing gap." Families and individuals unable to afford to rent or to buy in the private sector often find either they are ineligible for federal assistance, or that they are eligible, but the assistance has been exhausted. Caught in jeopardy, the people become victims of simultaneously increasing housing gaps and shrinking funding sources. Tough policy decisions must be made.

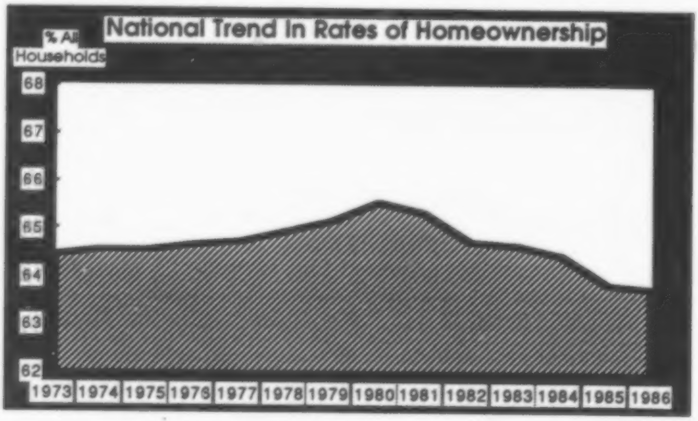
Troubling Housing Trends

Because some now contend that housing is no longer an issue of national concern, it is important to examine what is happening. Whether considering homeownership or rental housing, there is clear evidence of a mounting problem.

Homeownership Rates Are Dropping

In our culture, the best barometer of troubling housing trends is reflected in the declining homeownership rates. Since 1980, the trend in homeownership has been one of erosion. Chart 2 shows the trend clearly over more than a decade. After gradual, consistent increases in the rate of homeownership beginning in the 1940s, a reversal has begun.

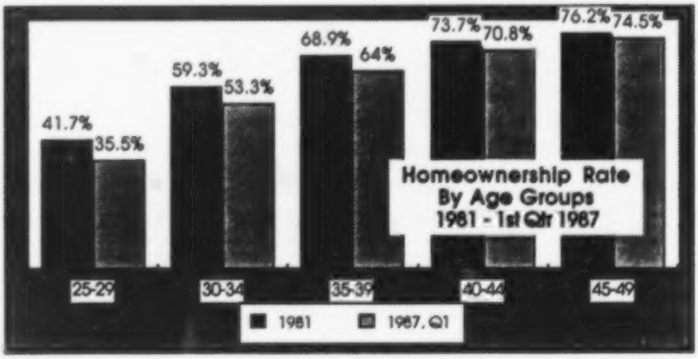
Chart 2



Source: U.S. Census Annual Housing Survey, National Association of Homebuilders

Today the homeownership rate is at its lowest level in over a decade. Moreover, the impact of the affordability problem on younger households is now becoming quite clear. The detailed picture presented in Chart 3 shows the homeownership rate from 1981 to 1987 according to the ages of the heads of household. Most distressing is the decline in homeownership among those households 39-years-of age and under. A decline was 15 percent in the past five years occurred for those aged 25-29, and eight percent for those aged 30-34. In addition, homeownership declined by nearly five percent for households headed by a 35 to 39 year old, an age bracket in which the financial capability of the household should traditionally be nearing its strongest level.

Chart 3



Source: U.S. Census Annual Housing Survey, National Association of Homebuilders

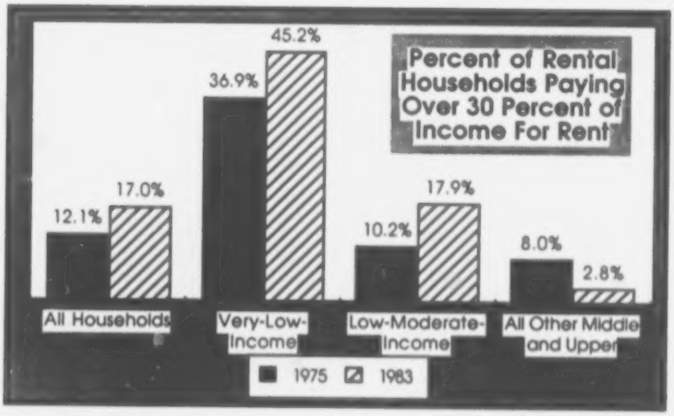
Equally important to an objective understanding of contemporary housing issues is the extent of lost opportunities for homeownership. Had homeownership remained at the 1980 levels, an additional 1.6 million households would own their homes today.

Rent Burdens Are Rising as Low Cost Rental Housing Supplies Decline

Since the 1940's, a twenty-five percent rental cost to income ratio was considered an appropriate housing cost burden. Recently, that ratio has been raised to 30 percent. Households who must pay 30 percent or more of their incomes for rent, are considered to bear a high rent burden. As Chart 4 so graphically indicates, the incidence of high rent burden has been increasing over the past decade.

In 1983, 66 percent of all rental households were bearing a high rental cost burden, indicative of the private sector's difficulty in supplying affordable rental units. Notably, the information gathered in both 1975 and 1983 by the Census Bureau shows that the high rental cost burden is most widespread and is increasing most rapidly among very low income households. Equally discouraging is the increase in the number of households thus affected among low- to-moderate income households.

Chart 4

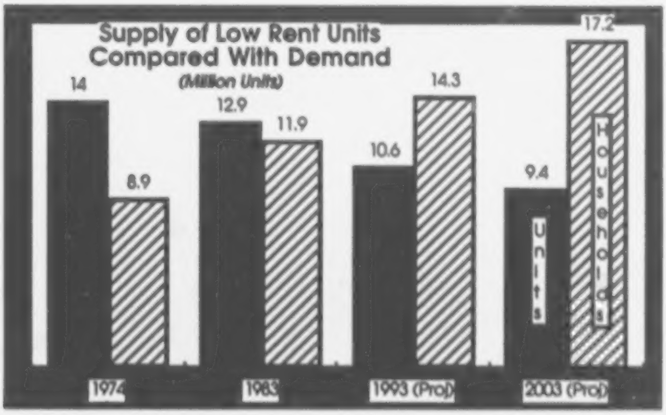


Source: HUD Housing and Demographic Division, Office of Economic Analysts

One reason so many renters are paying a high portion of their income for rent is the inadequate supply of low rent units. As Chart 5 indicates, in 1974 the supply of low rent units exceeded the number of households able to afford only low-rent units. The changing supply and demand relationship between 1974 and 1983 is alarming. Over that decade, the situation reversed and a fundamental supply/demand problem emerged. This situation limits the actual available supply for those unable to pay more. If the trend proceeds unabated, the problem will become all the more severe in the future.

While Chart 5 shows that in 1983, the total supply of low rent units exceeded by one million the demand for those units, Chart 6 indicates that when the rental units, which receive some federal subsidy, are removed from this picture, the supply of low rent units provided by the private sector is 3 million fewer than the demand.

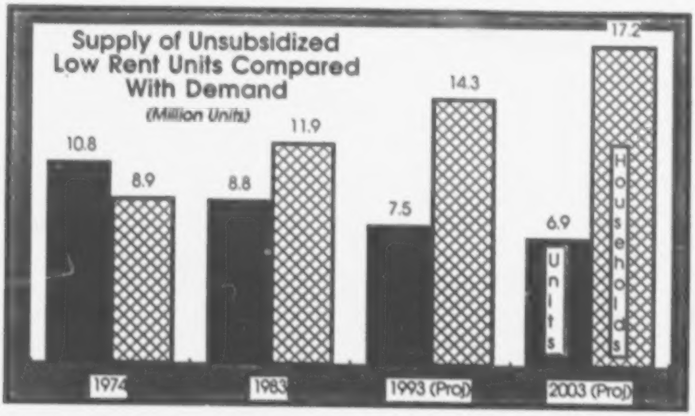
Chart 5



Source: At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources, Neighborhood Reinvestment Corporation, Author: Phillip L. Clay, Massachusetts Institute of Technology, Cambridge

Thus, the trends in Chart 6 are even more troubling. The picture that emerges is one which clearly indicates a collective failure on the part of both the public and private sectors to effectively meet the rental housing needs of low income households.

Chart 6



Source: At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources, Neighborhood Reinvestment Corporation, Author: Phillip L. Clay, Massachusetts Institute of Technology, Cambridge

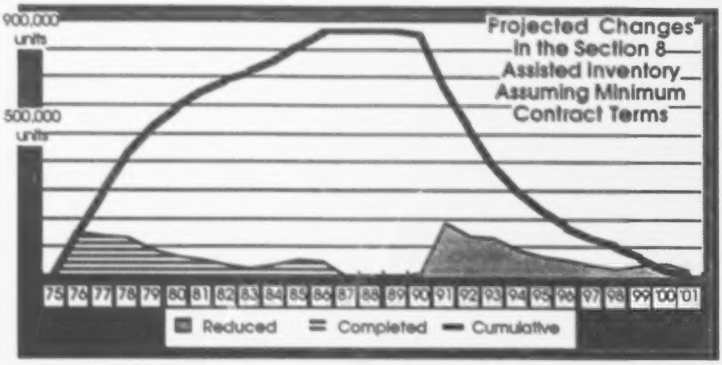
Assisted Rental Housing Units Are Being Lost

Chart 7 indicates that the problem of increased demand verses dwindling supply of low rent housing is exacerbated by an impending loss of federally assisted rental housing.

The inventory of federally assisted low-income rental housing will shortly begin a period of reduction as assistance contracts on these units made during the 1970's reach their expiration date. Chart 7 contains the analysis of the General Accounting Office of projected changes in the Section 8 Certificate and Voucher inventory, assuming minimum contract terms.

There is a growing national debate about the appropriate responses to this problem. It is unclear if all of these units from the inventory of low income housing, or even a majority of them, will be lost. Yet, the loss of any number is troubling in light of rental housing trends.

Chart 7



Source: Potential Reduction in the Section 8 Existing and Voucher Inventory, General Accounting Office, October 1986

Understanding the Causes of Current Housing Trends

Simply identifying trends is not enough. The factors that contributed to their formation must be understood, in order to describe strategies for reversing these trends.

Access to Homeownership Is Stymied By Higher Annual and Entry Costs and Mortgage Market Changes

After a decade of inflation, mortgage lending practices were liberalized during the early 1980s when the industry was being transformed by deregulation. Increased competition forced the creation of a host of new and innovative financing vehicles for directing capital to mortgages. Industry observers point to a proliferating number of mortgage lenders that are increasingly concentrated in metropolitan areas as evidence of fundamental changes taking place.

These changes have narrowed the profit margins on mortgage market transactions, increasing the concern for the risk of each loan involved. As a result, homebuyers are forced to pay higher down-payments and meet more stringent underwriting criteria. Although the mortgage industry continues to deliver a competitively priced product, it is a product that is increasingly unavailable to many households which, just a decade ago, were qualified borrowers. Moreover, the lack of interest in supplying low volume areas has resulted in the industry's inability or unwillingness to direct mortgage capital outside of metropolitan and large urban areas.

Along with changes in the mortgage market, land costs have continued to increase and although construction costs have moderated in recent years, the overall effect has been an increase in home prices. Rising home prices have frequently driven the price of housing beyond the reach of the moderate income American. By contrast, certain regions of the country are seeing housing prices and values decline. Economic problems translate into housing problems, especially for households who made pre-deflation home purchases only to see their investment erode. A similar situation was once the primary catalyst for federal involvement in housing.

As home values escalated, homeowners saw their equity rise dramatically with inflation. The result has been a lucrative opportunity to sell their home and "trade-up" using large down-payments. By contrast, the typical prospective first-time homebuyers must select from high priced homes, but frequently do not have the means for making significant down-payments.

Low-Income Rental Housing is Not Feasible in the Absence of Subsidies

Rental housing development is a complex and variable process which relies on certain basic ingredients to ensure feasibility. The cost of purchasing the land, preparing the site, constructing the units, financing the construction and mortgage, and managing the property must not exceed the income which can be gained from the rents. In order to attract private investment, the project must generate sufficient earnings to provide a return to the investor comparable to other investment options. Finally, there must be enough people present who are able and willing to pay the needed rents, or else, operating losses will occur.

Rental property owners who saw rental increases lag behind other cost increases throughout the late 1970's and early 1980's now face the need to raise rents. As a result, William Apgar of the Joint Center for Housing Studies at the Massachusetts Institute of Technology and Harvard University in an analysis has found that real rents (current rents adjusted for inflation) are increasing at a rate faster than at any time in the last twenty years.

Where then does the low-income renter fit in such a market? In testimony before Congress this year, Apgar noted

> "For a household earning $10,000 a year, $250 per month is a high rental payment, an amount equal to 30 percent of income on an annual basis. Yet a rental payment of $250 per month is not sufficient in most housing market areas to cover the cost of operating and maintaining rental housing. A rent of $250 is simply inadequate to cover the costs of utilities, property tax, debt service and the like, let alone provide property owners with sufficient resources to maintain their dwelling units in good condition. Consequently, over the period 1974 to 1983 the number of rental units with real rents less than $250 per month declined by over two million units."

It is an unrealistic to expect that low-income rental housing will be constructed in the absence of some type of subsidy to bridge the gap between the revenues which low rents generates and those needed to generate a rate of return which can attract investors. While non-profit sponsors of rental housing are less interested in retained earnings, no way has yet been found to remove the other fundamental costs of a project short of some form of subsidy. Moreover, private, non-profit, and public sponsors must be present if the needed volume of low- and moderate-income housing will be provided.

Declining Federal Resources for Housing

Without question, Congress has limited the use of federal resources. Moreover, federal programs are increasingly geared towards the lowest income households. In virtually all major programs, direct federal funding assistance is now targeted primarily to households with less than 50 percent of area median incomes. Reductions in federal outlays have limited the number of eligible people who will receive assistance. When eligible income limits for programs such as Section 8 Existing Housing were lowered from 80 percent of area median to 50 percent, many households found themselves no longer eligible for assistance, but still unable to afford the housing available in the market place.

In addition, a 71.1 percent reduction in budget authority for HUD assisted housing programs since 1981 affects those still eligible. Long waiting lists for public housing and Section 8 Certificates, as well as the growing problem of homelessness are just two results.

Since 1980, the laws governing the use of tax-exempt bonds for housing have been changed to mandate deeper and deeper income targeting. Another major constraint is the Alternative Minimum Tax (AMT) on these bonds. The AMT is imposed upon taxpayers whose portfolios contain excessive tax shelters. For these taxpayers, certain tax preference items are included in a formula which produces a minimum tax standard. For the first time, the Tax Reform Act places certain tax-exempt bonds among the tax preference items counted for the AMT. The AMT has raised, by as much as one-half to two-thirds of a percentage point, the mortgage interest rates to first-time homebuyers. Ironically, bond traders do not expect typical investors in housing bonds to be subject to the AMT, but they nonetheless enjoy the resulting benefits of higher bond yields.

The AMT was a major factor in the low volume of bonds issued under the tax reform rules. Between August 15, 1986, and July 1, 1987, only $930 million of the $5.3 billion of Mortgage Revenue Bonds issued by state housing finance agencies (17 percent) were issued under the new rules promulgated in tax reform. The availability of unused bond proceeds and excess mortgage prepayments resulted in numerous current refunding bond issues. Current refundings have not been subject to many of the post-tax reform rules, resulting needed flexibility in structuring MRB programs.

In addition, virtually no rental housing production has occurred using the Multifamily Development Bond (MFDB) since tax reform. One goal of Congress in tax reform was to increase the targeting of these bonds. Where previously 20 percent of the units in a project had to be reserved for households with incomes of less than 80 percent of the area median, the law now requires that either 40 percent of the units be set aside for households within 60 percent of median income or 20 percent of the units for those within 50 percent.

The Act also substantially changed the package of incentives for developers to participate in low income rental housing. The depreciable life of low income rental housing increased from 15 to 27-1/2 years. The effective capital gains tax rate is now the rate for the income tax bracket in which the developer is taxed. The passive loss provisions of previous tax law were effectively removed. Many other provisions of the new tax code remove or curtail private sector developer incentives for participation in housing development.

Moreover, the newest tax-based rental housing program, the Low-Income Housing Tax Credit, seems unable to offer sufficient incentives for development. As of yet, this stimulus to equity investment has failed to supplant the tax incentives that existed prior to the Tax Reform Act of 1986.

It is not too early to ascertain that these constraints have critically harmed the program. The financial reality is that a rental project's costs must be borne substantially by the market rate units. Tax reform reduced the size of market pillars supporting the low-income units while adding to the load. Not surprisingly, the structure collapsed.

The result is a virtual end to the willingness of private sector developers to put money at risk for low income rental housing. A survey of its members conducted by the Council of State Housing Agencies in April 1987, indicated that of 394 developments in process at the time of tax reform, 56%, or 222 developments, terminated processing. As an example, in Connecticut in 1986, following the passage of tax reform, 38% of the developments being processed were withdrawn, where as before 1986, the Connecticut agency had an annual development dropout rate of approximately 8%.

Income targeting requirements further restrict rental housing production. For instance, in Minnesota it would be foolish for any developer to risk capital for a long-term rental real estate investment in rural Minnesota subject to the required targeting. Incomes are too low to support high production costs. Though the income limits for the metropolitan area are higher, they still do not provide an adequate cushion for assuming a 15 year market risk.

Although there will be some 1987 multifamily construction starts by state housing finance agencies, these starts are mainly the result of developments financed in 1985 and to a lesser extent in 1986, where only the construction begins in calendar 1987. Moreover, a survey of 1987 multifamily bonds activity in Georgia found that no bonds were being issued under the new tax rules. Instead, governmental bonds not subject to many of the rules and bonds issued under the transition rules compose the whole sample.

Income targeting requirements on tax-exempt bonds are restrictive and tax incentives to developers to produce low income housing are eliminated. It is not surprising that state housing finance agencies, with few exceptions, have virtually no rental developments in process and there is little, if any, prospect of this situation changing.

The longer term outlook is that only a few states with resources created by strong economies and/or favorable political climates will be producing affordable low-income rental housing. Even in these areas, the state resources are insufficient to supplant lost federal funding.

Thus, tax reform raises fundamental intergovernmental policy issues for the future. Only a very few states are able to produce limited amounts of affordable rental housing. The majority of states, because of the lack of federal resources and because of local political and economic conditions, are simply not able to produce affordable rental housing. States can respond through housing finance agencies with state and agency financial resources, but only Congress can fully address the resource issue.

The challenge for federal, state, and local government is to address the broad spectrum of housing needs that begin where the private sector activity ends. Homeownership opportunities for ordinary working people must be reestablished, and affordable rental housing produced. Further, rental assistance must be combined with rental production to house the lowest income households.

Section 3
A Strategy for Implementing the National Housing Policy

Thus far this report has established the need to reaffirm traditional national housing policy goals by demonstrating the breadth of the housing problem besetting the nation. As preparation of new responses begins, certain fundamental principles must be met by each program recommendation, as well as by the combination of new initiatives and program improvements. When state HFAs design their new program components, they uses many of the same criteria as set forth below:

- Increase Public Resources
- Improve and Build Upon Existing Program Foundations
- Integrate and Coordinate Public Resources
- Provide Flexibility
- Leverage Additional Resources

These same criteria should guide any specific legislative changes resulting from the current federal policy effort.

Increase Public Resources

The federal government uses tax expenditures, direct expenditures, and support for mortgage credit and secondary market activity as vehicles for directing capital to housing. Particularly with direct expenditures, the federal government does not provide the level of support necessary to address national housing problems. However, a stronger commitment is necessary if a serious attempt is to be made at solving these problems. CSHA recommends a new program initiative involving direct expenditures: the Housing Affordability Fund. The program should have two components, a transfer of funds to states for use in conjunction with state resources, and a package of incentives to increase state efforts and innovations.

Politically, the least risky response is to take the dollars within certain existing programs and redirect them as necessary. While it will be necessary to combine a number of small production programs, these alone will not be enough. Additional federal funding will be needed if this approach is to be effective.

Improve and Build Upon Existing Program Foundations

The array of existing federal programs must be analyzed. Much can and should be saved. Tax expenditure programs such as the Mortgage Revenue Bond and Multifamily Development Bond programs are proven performers when properly channeled and must be included in future efforts, along with the new Low-Income Housing Tax Credit. The rental assistance program and the rural programs of FmHA are examples of direct expenditure programs which must be retained, reenergized and improved. To ignore their past successes, is to ignore their yet to be realized potential, and would preclude a comprehensive federal response. The FHA insurance and VA guaranty programs provide essential mortgage credit support nowhere else available. Moreover, the historic public purpose of the federal secondary market institutions, Fannie Mae, Freddie Mac, and Ginnie Mae, remains. CSHA recommends a number of improvements to federal programs covering tax expenditure, direct expenditure, and mortgage market support taking into account past experience using and administering these programs.

Integrate and Coordinate Public Resources

Today's environment of scarce resources dictates maximum use of every available direct and indirect resource. Opponents of a strong federal effort in housing often use the "double-dipping" argument to defeat new or expanded initiatives. It could be argued that a single federal program which provides the critical mass of federal dollars is the best approach.

However, an analysis of residential real estate ventures, be they homeownership or rental, reveals several key elements, including debt, hard costs, tax-related costs and benefits, and credit enhancements, which compose an economically feasible transaction. CSHA argues that in order for the federal response to be most effective it needs to address all of the above factors.

From a practical perspective, the operative phrase is "critical mass". Many have argued the inefficiency of the bond and similar tax driven housing programs, citing a larger portion of foregone revenues being spent on program costs as opposed to being used as subsidies. However, the real inefficiencies stem from the lack of coordination between individual programs, whether they are tax incentives or direct spending.

The existing programs often work at cross purposes with one another. For example, Mortgage Revenue Bond targeting provisions have in certain cases restricted eligibility to prospective homebuyers whose incomes are too low even to merit federal mortgage insurance. Thus a mortgage loan cannot be made for want of credit support. Likewise, the rental requirements of the Low Income Housing Tax Credit are in direct opposition to those governing the Section 8 Rental Assistance Program complicating the effective combination of these resources. CSHA urges a comprehensive integration of the varied programs to allow for a simpler design and more efficient management.

Provide Flexibility

Flexibility is an equally important criterion for designing future programs. A host of categorical responses might have been appropriate in the past and in some individual instances still hold legitimacy. Today's housing problems and their solutions require flexible approaches. A static, narrow program will not allow for the creativity and entrepreneurialship necessary to meet the diverse needs. CSHA recommends that future housing efforts take into account two major premises.

1) The housing problem covers a spectrum from home-ownership to homeless, low income to moderate income, involving problems of both availability to affordability. Any new initiatives must allow for states to direct these resources to those most in need as they define their priorities; and

2) Although factors contributing to these problems will vary dramatically, a few traditional techniques are generally employed in housing programs. Optioned

use of the appropriate technique for each problem should be granted.

Leverage Additional Resources

The final key criterion is a concept relatively new to federal programs, but inherent in both the UDAG and HODAG programs--leverage. Public dollars, be they federal, state or local, must induce and leverage private and non-profit resources, particularly in this period of scarce resources. Equally important is the necessity that federal dollars leverage additional public monies from states and localities. A "Challenge Grant" component of the Housing Affordability Fund initiative is recommended to meet this requirement.

In developing it's recommendations, CSHA has considered "private resources" in the widest context. In addition, CSHA acknowledges the necessity to increase states' roles in terms of both in the responsibilities given . . . assessing and determining the value of the Credit on individual projects or undertaking several demonstration programs . . . and in the financial commitment required . . . the concept of a Challenge Grant.

◆ ◆ ◆

The above criteria represent an acid test for all new initiatives and program improvements recommended to follow. Each criteria should be viewed by policy-makers and program designers as threshold objectives for future housing efforts at the federal, state or local level.

In addition, CSHA recommends that this effort must seriously consider the role for states in the new generation of housing programs. It is our contention that states possess a wide range of strengths which must be challenged and expanded beyond any efforts of the past.

Increased State Role

The state's role can be expanded in two general ways:

1) by strengthening their traditional roles in the national housing finance system as conduits of capital; and,

2) by expanding upon state capacity through an increasing program delivery system role in administering and allocating federal resources.

This is a natural evolution of the public sector's participation in national housing policy. Housing problems are as diverse geographically as they are financially.

States are in the unique position of identifying those problems in their distinct market settings, setting priorities across the urban-rural, homeownership-rental spectrums, categorizing need among various income groups, and crafting programs more responsive to the particular economic and political environs.

In addition, states are familiar with their local housing delivery system. Representing more than a cursory knowledge of housing needs, HFAs have an in-depth appreciation of individual participant's strengths and weaknesses, both substantively and politically. This understanding translates into a higher probability of programmatic success.

In the end, any housing efforts require hard cash. Economic feasibility, or profit, is not illusory; developers and lenders, like all members of the private sector, demand a reasonable economic return. However, this is a value which is highly negotiable in both form and political terms. States, because of their proximity to the scene, are the most appropriate government component in this financial equation.

Lastly, states are becoming stronger participants in housing, increasing both their programmatic capacity as well as their commitment of financial resources. In this regard two points must be made. First, these increases have not only taken place in a time when the federal role has dramatically decreased on all fronts, but have brought about a host of innovative initiatives characterized by creativity and entrepreneurial ability. States today are much more than conduits and implementors; they are also designers, developers and risk-takers. Second, the increase in committed state resources still falls considerably short of the levels necessary to meet the housing needs. Individual states have no control over regional capital shortages or economic cycles.

From a national perspective, there is little choice. The problem outstrips the resources of individual states even when combined. Therefore, it is in the mutual interest of the federal and state governments to accelerate the momentum toward greater state involvement in delivering state resources. This will require trust in the form of flexible and coordinated federal programs. The benefits will be programs more successfully directed toward the unique and varied housing problems in any given area market.

Section 4

New Housing Program Initiatives

New federal initiatives are needed to respond to the troubling trends now facing the nation. These initiatives must provide hard cash to create housing opportunities, whether assisting low and moderate income homebuyers pay the downpayment and closing costs on their first home, providing a one-percent interest rate second mortgage to attract private capital to a low-income rental project, or adding rental subsidies to low-income units in order to meet monthly cash flow need.

The most appropriate vehicle to bring cash resources to bear on housing opportunities is to grant to the states the authority to administer and allocate federally appropriated funds. This approach mirrors the basic principles underlying the public sector housing strategy CSHA recommends. First, resources are available at the point of activity where the housing finance agency, investment and mortgage bankers, private and non-profit developers, builders, Realtors, homebuyers and rental owners and tenants are continually interacting.

Next, an annual appropriation of federal funds to states for housing facilitates the ability of the HFAs to integrate direct federal funds with other resources such as tax-exempt bonds, the low-income credit, rental assistance, and state or local funds to create the needed mix .

Third, the funds can be deployed where the need is greatest as determined by the knowledge of housing markets which HFAs possess. As the cost of various factors comprising the mix of essential project ingredients changes, the amount and use of the funds must and can be altered to meet the new situation.

Finally, the essential goal of leverage is achieved. A well placed dollar can attract additional public resources, whether in the form of land grants, infrastructure, direct cash, tax abatements, or technical resources. This combination of public resources can in turn attract private capital which would otherwise go elsewhere.

A new, innovative federal housing program initiative, such as the Housing Affordability Fund program referred to earlier, that adheres to the above principles should be created. The proposed program involves two basic elements: a major formula driven flexible housing funding program for states, and a "challenge" supplement that awards additional funds to states committing their own resources and undertaking innovative programs.

Housing Affordability Fund

The concept behind the Housing Affordability Fund initiative is simple and familiar, having been used by federal/state partnerships across the whole spectrum of program areas. An annual appropriation from a minimum five year program authorization is made to each state based on a formula that considers both economic factors and housing needs. The formula is created to achieve a funding balance between predominantly rural and urban states.

Application of the funds should be restricted to low- and moderate-income housing efforts. When used to expand homeownership opportunities, the funds must be limited to households eligible to participate in the MRB program, while those used for rental programs must conform to project-based MFDB and LIHC program targeting.

Depending on financing variables and state approval, Housing Affordability Program dollars can be used in tandem with any of the tax-exempt housing bond programs, the Low Income Housing Credit, state housing programs, or other direct-funded federal programs. When used together, the combination of resources would enable a deeper subsidy to be provided as a means of expanding homeownership and affordable rental housing opportunities to the lowest income households.

Eligible uses should include at a minimum and not be limited to: new construction, acquisition, or rehabilitation financing involving interest write-downs, down-payment grants, second mortgage loans with deferred payments, and credit enhancements. Among other potential uses are: reducing rental development costs, and providing project-based rental assistance.

"Challenge" Grant Funding

Augmenting the base Housing Affordability Program funding would be a supplemental fund awarded by the federal government to states on the basis of innovative state housing program initiatives, special housing needs, or the contribution of state cash resources to housing efforts . . . such as the creation of housing trust funds, direct appropriations, or state agency revenues.

The challenge grant must also be used to respond to the special housing needs that exist in poor states or regions, arising from disproportionately low median incomes, pockets of poverty or the effect of localized economic problems.

Demonstration Program . . . State Housing Finance Agencies and the Farmers Home Administration

A demonstration program is proposed that incorporates the use of coordinated and combined resources to meet national housing policy goals. CSHA recognizes the essential role FmHA plays and recommends that it remain an independent program vehicle. To facilitate the goal of cooperation, a demonstration program involving state HFAs and the Farmers Home Administration is recommended as an opportunity to combine the strengths of two program delivery vehicles for a greater impact on rural housing programs. The Farmers Home Administration has played, and continues to play, an effective role in improving rural housing through both homeownership and rental programs. An extensive network of field offices provide a critical resource for implementing these programs.

Such homeownership programs as Section 502 (Home Ownership Loans), Section 504 (Low Income Repair Loans and Grants), and Section 533 (Housing Preservation Grants) are administered by FmHA. Section 533 (Housing Preservation Grants), and Section 515 (Rural Rental Housing) are important means for producing and maintaining rural rental housing. Importantly, the powerful coalition that has kept FmHA programs alive during the past several years of budget cuts would probably dissipate should the programs be folded into an all-purpose block grant.

State housing finance agencies can augment FmHA in several ways. HFA staffs offer many skills that can augment those possessed by agriculturally trained FmHA staff including: loan application processing; underwriting; loan servicing; appraisal; annual recertification of tenant assets, income, and family composition; disbursing loan funds; pre- and/or post-application counseling; collecting/disbursing escrow funds for taxes and insurance; and coordinating all possible resources, including the Low Income Housing Tax Credit.

The proposed demonstration program would create a "fast track" processing mechanism for the 515 program. In addition, HFAs would provide financial services to FmHA offices which would "originate" homeowner loans.

Many of these services have been provided by FmHA at federal expense, thereby enhancing the ability to serve very low-income families, HFAs would need to retain this feature in their involvement.

Current Congressional Initiatives

Three important Congressional initiatives can be used with other federal, state, and local resources. These deserve implementing.

Nehemiah Plan

The current housing authorization bills under deliberation by Congress would expand upon an ambitious homeownership program that produced 1,000 of the proposed 5,000 single family homes in East Brooklyn, New York. Funding is made available to non-profits which provide loans to families purchasing homes constructed or substantially rehabilitated according to program guidelines. In some communities, homes under this program are affordable by families earning as little as $15,000 per year, and in almost all communities, are within reach of families earning $20,000 per year.

Components of the program include: non-federal public/private contributions of land, non-federal public/private financial or in-kind assistance, use of construction methods which reduce the costs, involvement of local residents in the planning, and locating the program in areas of social/ economic blight. The State of New York Mortgage Agency provides mortgage money for the Nehemiah project.

Individual Home Account . . . the Homebuyer "IRA"

Recognizing that with limited disposable incomes, young families are unable to amass sufficient funds to make the down-payment and pay the closing costs on a home, Congress has considered creating "Individual Home Accounts" modeled after Individual Retirement Accounts (IRAs). Recently, Senator Dennis Deconcini (D-Az) introduced legislation, S 1534, to exempt from tax liability up to $2,000 per year if set aside in special savings accounts exclusively for purchasing a first home. A limit of $20,000 would established for the account. This program would benefit any household that has a tax liability and would encourage the type of savings which are difficult to amass when disposable incomes are limited.

HUD Distressed Project Demonstration

Section 166 of HR 4 currently before Congress proposes a 3 year HUD demonstration program regarding the disposition of distressed HUD held properties. The section stipulates that HUD provide the Massachusetts Housing Finance Agency with the option to provide the long-term financing on any properties in Massachusetts it plans to sell. Through this mechanism MHFA could gain oversight of these properties to insure their successful rehabilitation and management. The approach offers an ability to maintain valuable low-income rental housing stock. As has been already suggested, CSHA recommends that Congress should expand this demonstration program nationwide.

Section 5

Building Upon The Existing Program Foundation

In spite of federal funding reductions and new volume and targeting restraints on tax-exempt housing bonds, a foundation comprising of existing programs exists to bolster the recommended new programs initiative. These resources are essential to meeting the nation's housing goals. Yet if the optimum impact from them is to be achieved, they must operate under the basic principles described in Section 3. Frequently, this approach conflicts with natural tendencies to view individual programs in isolation. Yet the potential impact of carefully combined and targeted public resources cannot be ignored. Private resources will not be brought to bear on many of housing problems unless sufficient public resources are present.

The federal policy efforts should pay careful attention to how certain existing federal programs are deployed, or the potential impact of new program initiatives such as the Housing Affordability Fund approach will be squandered. These programs operate within the three avenues through which public resources have traditionally been brought to bear on housing problems. Of central importance to HFAs are the tax expenditure programs, Mortgage Revenue Bonds, Multifamily Development Bonds, and the Low Income Housing Tax Credit. The Rental Assistance program, with which many HFAs are involved, provides essential access to private housing for very low-income households and has unrealized potential. HFA involvement with federal mortgage credit support mechanisms is long-standing. When these programs function smoothly, HFA lending programs tend to do likewise. The other federal mortgage market support vehicle, the secondary market institutions, are becoming increasingly involved with HFAs in meeting their public purpose.

In view of the extensive relationship between existing federal programs and HFAs, CSHA is compelled to present detailed recommendations for improving these programs. As the national housing policy and implementation discussions proceed, more detailed examination of each will be needed.

Housing Bonds and the Public Purpose

Certain tax-exempt bond changes in 1986 adversely affected both Mortgage Revenue Bonds (MRBs) and Multifamily Development Bonds (MFDBs). Those changes thwarted the historic role these programs played in implementing national housing policy. Recognizing the "public-purpose" nature of these bonds and the presence of policy-based targeting provisions, special treatment is warranted.

CSHA recommends the following revisions to the basic tax-exempt housing bond legislation.

- Remove alternative minimum tax (AMT) . . . the one-third to two-third percentage points AMT adds to the mortgage interest ultimately borne by the family which the program seeks to help, exacerbating their affordability problem. As a result, AMT works against the targeting goals of the 1986 tax reform act at a time when use for lower income households is mandated.

- Current refundings . . . managing bond proceeds and cash flow from outstanding mortgages is sound fiscal practice. Current refundings provide a means to preserve the financial integrity of the program without increasing the amount of tax-exempt debt outstanding. This capability should be preserved when the MRB sunset date is removed.

- Arbitrage . . . Limits on the use of bond proceeds are needed to arrest potential abuse of the tax-exempt resource. Yet earnings on invested idle bond proceeds should not be constrained if the funds can be channeled for public use. Needed changes to arbitrage provisions include:

  1) removing restrictions on the investment of bond proceeds in non-mortgage instruments ("non-purpose investments" under the 1986 Code);

  2) expanding the "temporary period" for MRB proceeds until used to allow investments at a"mutually higher" yields; and

3) removing restrictions on state or agency contributions to bond programs invested along with bond proceeds.

The funds generated from arbitrage earnings should then be directed to program purposes.

Federal Secondary Market Support for Homeownership and Rental Housing

Fannie Mae, Ginnie Mae, and Freddie Mac

FNMA provides a secondary market conduit for single family loans with a public mandate to assist moderate-income homebuyers. Currently, efforts are underway to "privatize" FNMA and FHLMC. By implication, privatization implies that no longer a public purpose remains for these organizations to serve. Yet declining homeownership and the increasing difficulty of the private mortgage industry in serving the first-time homebuyer market in many geographic areas dispel this notion. Continuing participation in the secondary markets by institutions having a public purpose mandate remains as essential today as in the past. Moreover, it is difficult to discern what is gained by cloaking FNMA and FLHMC in the mantle of "privatization."

GNMA also serves an essential role in providing capital for VA and FHA supported mortgages. Nothing should be allowed to diminish this capability.

These institutions have not impeded the on-going development of an active private secondary market industry, but have served to augment private activity. Recognizing their valuable role, CSHA recommends:

- Public mandate for FNMA and FLHMC . . . continuation is essential.
- GNMA fees . . . recover only the cost of services provided.
- Relationship with HFAs . . . HFAs approved as sellers/ servicers.

Homeownership Program Improvements

Mortgage Revenue Bonds

Mortgage Revenue Bonds (MRBs) are directed to households with income not in excess of 115 percent of state or area median, and in targeted areas not in excess of 140 percent of state or area median. Purchase prices on homes are limited to 90 percent of the area median and 110 percent in targeted areas.

MRBs have faced almost continuous uncertainty over the past seven years. The volume of bonds which may be issued is now limited and strict targeting restraints imposed. Moreover, the program has been subject to imminent "sunset" throughout this period. This unfortunate situation has diminished the effectiveness of the program, since continuity is critical in working with mortgage lenders, builders and real estate professionals. Moreover, it has inhibited the ability of housing finance agencies to deliver a continuous stream of capital to prospective first-time homebuyers.

CSHA recommends the following improvements to the MRB program.

- Elimination of the Sunset on use of MRBs . . . 1) the program is proven and 2) under the volume cap, states deserve discretion in directing a portion of this resource toward homeownership

- Improve MRB targeting . . . two essential improvements are needed. 1) The process for calculating "Safe-Harbor Purchase Prices" must be changed. Larger samples should be gathered more frequently gather . A streamlined appeals process must be established, with the option for state to compile their own data according to a Treasury approved process. 2) High cost areas should be given an option in lieu of using state or median incomes to determines income eligibility using "reasonable underwriting standards" and an interest rate one percent below the Federal Home Loan Bank Board contract mortgage rate for the preceding month to calculate the maximum allowable income for participants purchasing the Safe-Harbor Purchase Price Home under the MRB program.

- For designating targeted areas . . . only residential areas should be included.
- Redefine "Residence" . . . to include new construction of 2 unit buildings, allowing the purchaser to rent the additional unit.
- Provide exceptions to the 3 year rule . . . for:

  1) single heads of household where recent divorce or death of spouse caused the loss of the home;
  2) elderly owners purchasing a smaller, less expensive home to free equity for living expenses;
  3) households displaced due to economic distress.

- Create a six-month cure period for handling ineligible borrowers . . . as an option (for agencies who have no five percent "bad money" portion of bond proceeds remaining) to avoid placing the tax-exempt status of the bond in jeopardy.

Mortgage Credit Certificates (MCC)

MCC program is currently used in many states to complement the MRB program. While limited in its ability to provide a conduit for capital to the difficult first-time homebuyer market, MCCs are nonetheless an attractive subsidy vehicle.

For MCCs, CSHA recommends that:

- Sunset . . . be eliminated for MCCs.
- Consistency with MRBs . . . the MCC program guidelines should be consistent with the MRB program.
- To reach the lowest income families - allow MCCs to be used in tandem with MRBs

Veterans Mortgage Bonds

Veterans mortgage bonds are used in five states to assist veterans in becoming homeowners. CSHA recommends:

- Continued availability to previous users . . . in those states using these bonds, the bonds should be treated in the same manner as MRBs to provide for expanded homeownership.

FHA Mortgage Insurance/VA Guaranty

FHA credit support is limited to single family home purchases of $67,500 or less, except in high cost areas, while the VA will cover 60% of a loan up to $27,500 exposure. These programs provide opportunities for homeownership and contributed for over forty years to increasing homeownership. Their value is virtually unquestioned. Yet recent developments erode the effectiveness of the programs.

FHA recently tightened underwriting criteria on loans thereby denying opportunities to people who in the past would have benefitted from the program.

Moreover, in periods when the pace of mortgage activity quickens, major processing back-logs have occurred, occasionally grinding the first-time homebuyer market to a halt.

Finally, fees have been attached recently to VA loans. These fees adversely impact upon affordability to households having the greatest problem. The federal government should stop looking to the programs for additional revenue, using fees only to cover costs.

CSHA recommends the following improvements to federal credit support programs.

- FHA underwriting . . . a return to traditional underwriting standards and an emphasis on the young homebuyer.

- State HFAs as designated underwriters . . . State Housing Finance Agencies who underwrite loans should receive automatic designated underwriter status for FHA insurance and VA guarantees on MRB loans subject to reasonable standards

- No VA user fees . . . current VA user fees should be cancelled.

Rental Housing Program Improvements

Two primary tax expenditure vehicles exist to encourage rental housing production, the Multifamily Development Bond and the Low-Income Housing Tax Credit. The Tax Reform Act of 1986 created the latter, and increased the targeting requirements on the former. The ability of the Low-Income Housing Tax Credit to stimulate private sector involvement in rental housing production is not being realized, while the Multifamily Development Bond capability has been severely impaired through unworkable program restrictions.

Multifamily Development Bonds

Multifamily Development Bonds (MFDBs) have a proven record of effectiveness in producing low-income rental units where otherwise they would not have been produced. In the 1986 Tax Act, MFDBs were placed under the uniform state tax-exempt volume cap. More stringent targeting requirements were enacted, along with the Alternative Minimum Tax, arbitrage, and current refunding provisions. Limitations on the cost of issuance make it difficult to finance legitimate costs. In its efforts to improve the program, Congress effectively removed the incentives for private developers to include low-income units in their projects.

Since passage of the Act, the level of MFDB activity has declined dramatically. National construction indicators continue to reflect an appreciable level of rental housing production. However, the only low-income rental housing being financed is that which was in the "pipeline" prior to tax reform. In view of the rental housing trends discussed earlier, it is clear that Congress went too far in imposing limitations on the use of these bonds.

To breathe new life into the program CSHA recommends:

- Income limits . . . based upon state or area median to accommodate rural area projects.
- Affordability index used to designate high-cost areas . . . based upon a numerator equal to construction and land costs, the state or area median income as the denominator.
- Recertification . . . on a biannual basis to reduce an administrative nightmare.
- Projects removed from a bond issue after TEFRA notice . . . replaced by projects under the same guidelines and conditions as the original subject to revised public notice.

  Arbitrage . . . provide the same option as with MRBs that full excess investment earnings can be reimbursed to the borrower and only those excess earning that might remain would be subject to rebate to the U.S. Treasury.
- Use in meeting special housing needs . . . redefine "residential rental property" to allow 100 percent elderly or handicapped projects without requiring full kitchen and bathroom facilities and for "single-occupancy hotels."
- Removing family size adjustments for 100% elderly and congregate care projects.

Low-Income Housing Tax Credit

Historically, Congress has recognized that capital is not attracted to low-income housing production without some economic or tax stimulus. Anticipating that removing passive losses against income and changes in depreciation would adversely affect the ability of developers to raise equity for low-income projects, Congress created the Low Income Housing Tax Credit (LIHC). This vehicle was intended to provide needed stimulus for private equity investment.

As with any new program, uncertainty exists within the development and investment community. Yet it is nonetheless clear that the economic value of the credit is not high enough to achieve the purpose Congress intended in the absence of basic clarifications and technical changes.

CSHA recommends the following changes to make the program more viable:

- Removing the Sunset . . . recognizing that in improved form, it can effectively stimulate low-income housing rental production.

- Adjusting the Credit rate to increase value . . . because increased value is essential for the LIHC to be effective beyond small, heavily subsidized projects, one of the following options should be enacted.

  1) increase the Credit rate tied to units to a level needed to make the project feasible under standard underwriting scrutiny, regardless of the type of financing used

  2) fix the Credit rate at lower than current levels, but apply it across the entire project basis

  3) shorten the credit's life to as few as five years to raise the equity needed during construction and lease-up, to avoid deep discounting of the credit when syndicated, and to avoid additional financing costs, while retaining the 15 year holding period

- Unlimited carry forward if sunset not eliminated

- One year carry-forward . . . applied in two cases:

  1) for any state allocation not used in a calendar year, and

  2) for projects which were not completed in the expected year due to unforeseen and unavoidable circumstances

- Income limits based on higher area or state limits

- Placed-in-service . . . For purposes of the credit agencies actually making allocations:

  1) new construction of a building (project if the regulations are changed) . . . date the first unit is available for occupancy (Generally, that date would be indicated by a certificate of occupancy and occasionally by a temporary certificate of occupancy. For purposes of determining eligible basis, however, the cost of legitimate construction period expenses incurred after the "placed in service" date, should be allowed.)

  2) acquisition of an occupied existing project . . . date of acquisition

  3) substantially vacant or being vacated for substantial rehabilitation by the new owner . . . when the first rehabilitated unit becomes available for occupancy

  4) rehabilitation of project "systems" (heating, electrical, etc.) not requiring tenant relocation . . . at the time of completion of the rehabilitation work

- Setting the date of Allocation . . . (for administrative rather than tax purposes) the date at which the entire project can be said to be placed-in-service rather than requiring separate allocations to be applied to each individual building in a project.

- Ten year waiver . . . include federally assisted HFA financed projects, not insured by FHA, in the section on waiver of the 10 year placed in service requirements for credit eligibility.

  1) HFAs allowed to designate distressed projects for purposes of the waiver.

  2) allow use of the waiver for projects where prepayment is imminent.

- Elderly housing . . . facilitate participation by:

  1) deleting the term "retirement home" from the list of housing not eligible for the credit.

  2) removing family size adjustments for 100% elderly and congregate care projects.

Rental Assistance

The Section 8 Existing program is a primary vehicle for serving households with incomes less than 50 percent of area median. Through Section 8, critically needed rental assistance is provided to low income families and it has proven its effectiveness in making rental homes affordable to low-income tenants. Yet an important problem plagues this program which can be readily addressed and can dramatically increase its effectiveness.

Administering separate (although similar) voucher and certificate programs is both confusing and inefficient. By combining the two into one "hybrid" rental assistance program, with unified guidelines, productivity would be vastly improved. The program's goals and objectives would remain the same.

CSHA recommends combining Certificates and Vouchers.

- Creating a "Hybrid" Rental Assistance Program . . . based upon an improved format that includes:

  1) claim procedures as outlined under the voucher program

  2) funding reservations 5 times 115 percent of the estimated first year's actual subsidy expenditure (calculated on Payment Standard for each bedroom size minus the estimated tenant contribution at 30 percent of area median), plus estimated administrative fee. Any excess to be credited to Housing Voucher Subsidy or Fee Reserve Fund, to cover increased program costs, or to assist more families

3) each Annual Contributions Contract (ACC) to have a term of 15 years

4) Voucher Payment Standard concept used to determine amount of subsidy provided to family and paid directly to landlord

5) after initial contract, Comparables, Fair Market Rent limits, Exception Rents, and Annual Adjustment Factor (AAF), would all be eliminated (These don't exist in the voucher program, which allows families to determine the amount of rent they are willing to pay, thereby allowing them greater choice in the housing market.)

- Section 8 and emergency and transitional housing programs for the homeless . . . allowing a family to move directly from transitional housing to permanent Section 8 (perhaps even remaining in the same unit if the landlord is willing). (Entering by separate waiting list on a first come first serve basis, families accepted into the program are automatically placed on the Section 8 waiting list for future permanent status.)

FHA Co-Insurance

The FHA Co-Insurance program provides an attractive vehicle for supporting Multifamily rental projects. Currently only one state HFA has received final approval to work with HUD as a co-insurer of new and existing rental projects. Once approved as a co-insurer, agencies assume the responsibilities of the HUD Field Office in underwriting mortgage loans as well as those responsibilities of an FHA-approved mortgagee. In exchange for authority to underwrite, service, manage and dispose of property, the approved mortgagee assumes responsibility for a portion of any insurance loss on the co-insured mortgage. The lender is allowed to retain a share of the insurance premiums as compensation for assuming a portion of the risk.

Although one additional state HFA is nearing the final approval stage as a co-insurer, it is unlikely that many other states will participate until some program modifications are made. These have been discussed with HUD's Co-insurance staff on various occasions and revolve around two basic premises:

1) state HFAs' proven track record of successful Multifamily project underwriting
2) HFAs' traditionally private sector involvement including contracts for professional services such as appraisals as an alternative to costly "staffing-up"

CSHA recommends the following to increase HFA participation in the co-insurance program.

- HFAs approved to co-insurer if performance standards are met . . . HUD must be more flexible, respecting each agency's individual operating procedures, rather than bureaucratically imposing one, federally determined processing structure. For those states ascribing to standard and proven underwriting criteria, HUD should not require systemic changes.

The Assisted Rental Inventory Problem

Rental housing projects developed in the late sixties and early seventies with contracts for long-term federal assistance are reaching a point where the mortgage may be prepaid and the project lost from the assisted inventory. Approximately 650,000 of these low-income rental units were produced and financed under the Section 221(D)(3) BMIR and Section 236 programs. A portion of these, perhaps as high as one-third, will have an economic advantage to prepay their mortgage as their 20 year subsidy contract terms or lock-in periods expire.

Based on surveys, state housing finance agencies were involved in the financing of 118,000 Section 236 and later 243,000 Section 8 units. Without more precise numbers, the current understanding of the potential magnitude of the emerging prepayment problem is limited.

It may be assumed that assisted projects will fall into one of three categories:

1) those projects which are economically attractive and could return a substantial profit to the current

owner through sale and/or conversion to a market rate development;

2) those projects which are subject to sufficient economic and market uncertainty that the feasibility of pre-payment remains questionable;

3) those projects which are in economic distress, not in the market for conversion, but could benefit from refinancing and the infusion of additional capital.

Another issue which is even less well understood than prepayments is that of the maintenance and repair needs of projects which will remain in the inventory throughout the 40 year term. Although some of the cost pressures of recent years are easing a bit, these projects are aging. Financing their repair and renovation will require creativity, because the cost will be significant.

The tax code provisions which once allowed for changes in ownership from non-profit to limited dividend partnership for financing repairs are no longer available. This mechanism was traditionally used to fund needed physical repair to aging projects and to those in economic difficulty.

Implications of the existing assisted inventory problem are only now beginning to be understood. As a policy issue, the problem requires a patient, long-term commitment.

CSHA recommends a balanced approach that attends both to the needs of tenants and the opportunities to keep the projects in the assisted inventory.

- To protect tenants . . . those below 80 percent of median income who are being displaced should be assisted in finding comparable replacement housing affordable at 30 percent of income and receive rental assistance as needed. (CSHA urges caution in imposing restrictions that require projects to remain low-income in perpetuity. Such a "permanent fix" may be simplistic and not viable in the long-term. A more flexible approach must be taken. The availability of affordable housing is the key to the problem.)

- For owners who otherwise would opt-out of their contracts . . . make available an array of incentives to facilitate a flexible, cost-effective approach, allowing negotiation with individual owners based on the character and needs of individual projects, and specifying a time period during which the incentives will be made available to encourage their use.

- Carefully crafted incentives . . . allow use of MFDBs and the Credit in refinancing assisted projects or financing projects to house displaced tenants, without being subject to state volume limitations. Other tax incentives should include: tax forgiveness for projects remaining as low-income, a return to passive losses, maintenance and enhancement of the low-income housing credit, and a return to prior depreciation assumptions. Non-tax incentives should include: increasing owner dividends, increasing rents in certain situations, increasing access to reserves, and allowing for refinancing or subordinate financing.

- A public-private partnership . . . in financing, developing and managing affordable rental housing including, but not exclusively involving public (and or non-profit) ownership. State and local agencies can define local market needs, and primary and secondary lenders can facilitate negotiations involving their interests in mortgage contracts. The federal government, however, must retain primary financial responsibility, using its resources to leverage state, local, and private resources.

A RURAL HOUSING POLICY AGENDA FOR THE 1990S

Prepared For
The Senate Subcommittee
on Housing and Urban Development
at the Request of
Senators Cranston and D'Amato

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I. Foreword

The Housing Assistance Council, Inc. (HAC) is a national nonprofit housing organization whose mission is to promote decent housing for low-income rural households. Since its formation in 1971 HAC has worked to improve and increase the delivery of decent, safe and sanitary housing to rural elderly, handicapped and low-income families. In addition to assisting local organizations gain access to and use rural housing financing, HAC has been directly responsible for many improvements in the Farmers Home Administration (FmHA) rural housing programs. Among these are rural rental assistance and targeted allocations of rural housing funds to states. Unlike some organizations with a strong interest and commitment to rural housing, HAC exists only to assist low-income rural consumers, with particular emphases on minorities, American Indians, and farmworkers.

We believe that the call by the Senate Subcommittee for consideration of change in the federal housing programs is timely. Much of the federal government's current rural housing effort is valuable and worth preserving, but significant changes are needed if the nation is to fulfill its obligation to ensure that all Americans have opportunities to choose and live in decent and affordable housing.

Rural areas have unique problems which can be satisfactorily addressed only through programs specifically targeted to rural areas. Remote communities, dispersed populations, weak institutional and technical support structures, limited private credit resources, lack of sewage and potable water facilities, and depressed economic bases present formidable challenges for rural housing development. Like the equally idiosyncratic challenges of inner cities, they require highly tailored approaches and separate treatment.

This paper outlines a set of policy requirements to meet rural housing needs. It introduces a comprehensive array of program alternatives, designed to address the diverse housing problems of low-income rural households. In many cases, the programs proposed here not only offer cost advantages over those they would replace but would also enable service to households with incomes lower than those currently reached. In addition, they would foster preservation of the low-income housing stock - and avoid tenant displacement - by expanding program participation of public and private nonprofit organizations.

We also believe that the time has come to change the structure of rural housing delivery. Dissatisfaction with the attitudes and performance of current federal programs is increasingly widespread. The Department of Housing and Urban

Development (HUD) has continually demonstrated the low priority it gives to rural housing need, as for example in its recent request to Congress to waive the requirement that 20 to 25% of its low-income housing resources be allocated to nonmetro areas. The U.S. Department of Agriculture (USDA)'s influence over the programs of the Farmers Home Administration (FmHA) has been consistently negative.

Accordingly, HAC recommends creation of a cabinet-level Department of Rural Development to administer and carry out the programs proposed here. HAC supports the localized nature of FmHA's delivery system, and has incorporated its most positive elements into the proposed agency. Until Congress creates such an agency, HAC strongly recommends that FmHA administration be significantly reformed, along lines suggested in this paper.

Finally, HAC urges Congress to adopt a comprehensive approach to housing low-income rural Americans. The components of such an approach described in this paper are based on cost-saving principles. However, Congress should not lose sight of the stark fact that it costs money to properly house people with limited incomes. In good conscience, HAC must implore the Senate Subcommittee to endorse adequate resources - structural, programmatic and financial - to address rural housing need.

II. Executive Summary

This paper proposes a comprehensive approach to rural housing, including programs, alternative delivery systems, potential contributions of states, and a new - or significantly reformed - administrative structure.

Programs

The proposed rural housing agenda includes some existing and several new programs. Programs with proven effectiveness, such as the FmHA "low-income" homeownership (S. 502) and multifamily (S. 515) programs, should clearly be continued. In addition, HAC proposes several homeownership programs to replace the existing "very low-income" portion of FmHA's S. 502 program. To serve families earning up to 50% of area median, HAC recommends (1) market rate loans, to the level of affordability, combined with grants covering remaining capital costs; (2) deferred mortgages with subsidized interest, and (3) a competitive home ownership grant program, similar in design to the current housing preservation grant program (S.533). (Ed. Add the appended Turn-key program?)

Programs and policies to enhance the capacity of the nonprofit sector are recommended in Sections IV and V. HAC believes that nonprofit ownership is the only way to ensure that assisted housing will be retained for its intended public purpose. Accordingly, this paper proposes to gradually shift rural housing projects to nonprofit operation and ownership. For example, it suggests that 20% of the S. 515 appropriation be set aside for nonprofit organizations to finance the capital costs of rental housing.

Delivery and Administration

The paper critically examines the Farmers Home Administration (FmHA) and recommends a cabinet-level department to replace it as the provider of direct rural housing assistance. The proposed Department of Rural Development would absorb FmHA and the rural resources now residing in EDA, HUD and other agencies. The new Department would enable a more integrated approach to meeting rural development needs, and a fresh initiative in the provision of federal service. Until the new department is in place the paper offers alternative recommendations for reform of FmHA and its programs, with provision for state government role in shaping and augmenting rural housing resources.

Cost

The programs proposed in this paper are designed to meet stringent criteria for cost-effectiveness. They are intended to accomplish (1) maximal use of low-income housing resources for

(2) benefits for the neediest at (3) the least possible cost, through direct subsidies, targeting, and safeguards over the long-term use of the subsidized housing stock.

III. Rural Housing Need

Poverty continues to be disproportionately rural. Nearly every persistently poor county - with more than a third poor in both 1970 and 1980 - is outside metropolitan areas. Moreover, rural poverty has grown from a low-water mark or 13.5% in 1978, to 18.3% from 1983 through 1985. although the recently released Census report, Money Income and Poverty Status of Familis and Persons in the United States: 1986, indicates that nonmetro poverty declined to 18.1% in 1986, its decline was slower than in metropolitan areas (where poverty dropped from 12.7% in 1985 to 12.3% in 1986). Most tellingly, for the first time in many years the poverty rate in nonmetro areas exceeds that of the inner city.

The extraordinarily high level of rural poverty is of major concern to housing advocates, since the rural poor tend to live in areas where decent housing is scarce, and urban solutions are largely inapplicable. In many urban areas, the paramount housing need of the poor may be for rent supplements to provide access to available units. In contrast, the quality of existing housing in Appalachia, much of the Deep south, the Ozarks, the Hispanic Southwest, Indian reservations, and many other rural areas is so inadequate that resources for housing development, in addition to rent and mortgage supplements, are essential to ensure decent, safe, and sanitary shelter for poverty-level households.

For example, in 1983, less than a third (32%) of occupied units but nearly half (47%) of those defined by HUD as "severely inadequate" were in nonmetropolitan aeas. Half (49%) of the nation's very low-income households in severely inadequate units were in nonmetropolitan areas. Altogether, HUD's analysis found 4.5 million very low-income households with "housing problems" in nonmetropolitan areas. (Housing problems include cost burden, overcrowding, or physically deficient units.)

The Congressional Research Service (CRS) has also reported that housing production in rural areas is falling far short of meeting housing needs (Housing Requirements in Rural Areas, January 1986). Data from that report are shown in Table A.

A major factor in the shortfall is the lack of private credit resources.

The private credit issues most affecting housing for the poor are (1) the extent to which private mortgage credit is available in rural areas and (2) the extent to which it is available for low-income and very low-income households.

Concerning the firts issue, rural development groups have long emphasized that private credit is generally scarce in rural areas. Current analyses are handicapped, however, by the uncertainty surrounding the effects of recent deregulation.

HAC analysis of Federal Home Loan Bank Board data found that in 1984 over 500 mainland rural counties, including 5.3 million people, lacked federally insured savings and loans. Less than half of nonmetro counties have a savings and loan association headquarters. Moreover, most bank headquarters are in metropolitan areas, and the great majority of loans, including real estate mortgages, are held by banks headquartered in urban areas.

The effects on rural credit of the 1980 Depository Institutions Deregulation and Monetary Control Act are still uncertain, but, by relieving banks from interstate merger restrictions, the Act has encouraged a decline in the number of banks and a subsequent decline in the numbers of bank headquarters in rural areas. Branch banking could compensate for this decline, but overgoing studies indicate that the large banks engaging in branching are not interested in small, long-term and residential loan-making.

Rural lending practices are conservative, and mortgages generally require relatively high down payments and short terms. The shortage of private credit on favorable terms reinforces the rural reliance on self-help in housing construction. In metro areas, most newly built homes for owner-occupancy are built by contractor, and conventionally financed. In nonmetro areas, however, most are built by the owner, and financed with cash. (Census Construction Report, Characteristics of New Housing: 1985.) Such self-reliance may work well with households who can afford the materials for decent housing and who are capable of quality construction; however, these households generally fall outside the very low-income population of concern to this paper.

It is unlikely that private mortgage credit resources are accessible to the rural low-income population currently served by federal mortgage programs. The FmHA homeownership program in particular serves borrowers who must demonstrate with letter of rejection that they were unable to obtain loans elsewhere. The reasons for private lender rejection are usually linked to the low incomes of these borrowers, rendering them unable to meet monthly mortgage payment requirements under private market rate conditions.

TABLE A

Excerpt Data from 1986 CRS Report No. 86-517S

Housing Problems in Nonmetropolitan Areas

	Total	Very Low Income
Inadequate units	3,320,000	1,735,000
Crowded units	660,000	227,000
Cost burdened units	3,221,000	2,513,000
Total units with housing problems	7,202,000	4,475,000

Estimate Annual Housing Need and Production In Rural Areas

Need	Production
Additional households	350,000
Replacements	230,000
Vacancy/Mobility	45,000
Total	625,000
Housing Starts	300,000
Mobile home shipments	200,000
Conversions and Rehabilitation	50,000
Total	550,000
Annual Shortfall	75,000

IV. General Policy Requirements for a Comprehensive and Adequate Rural Housing Program and Commitment

A. The goal of a decent home in a suitable environment for every American must be resurrected, amended to stress affordable housing with a freedom of choice, and seriously pursued by the federal government.

> "Sec. 2. The Congress hereby declares that the general welfare and security of the nation and the health and living standards of its people require housing production and related community development sufficient to remedy the

serious housing shortage, eliminate substandard and other inadequate housing through the clearance of slums and blighted areas, and realize the goal of a decent, affordable, home and a suitable living environment with freedom of choice for every American family, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the Nation." (Added words underlined)

B. A National Rural Housing Policy must be adopted that works to eliminate substandard housing and shelter cost overburden. It must recognize the importance of technology in meeting goals without diminishing the overriding need to address income, affordability and an absolute necessity for the use of householder subsidies. It must recognize that our nation cannot merely enact just laws, but must also provide the financial means to make them a reality. A sound rural housing policy must:

1. Be national in scope, but readily supplemented by state programs. Its administration should be as local as possible but held to a high and consistent national standard.

2. Have well-designed finance, insurance and subsidy mechanisms. Tried and effective systems should not be discarded for new, programs unless reseach and testing proves then do to be better.

3. Be adaptable, work well witn public and private initiatives and resources, and permit direct programs to fit individual and/or area needs.

4. Be consistently available, with safeguards against the fluctuations of past programs which have often resulted in diminution of local response capacity.

5. Offer programs large enough to be effective, rather than demonstrations.

6. Be equitable, and meet income and equal opportunity tests.

7. Be responsive to consumers.

8. Integrate water and sewer with rural housing resources.

9. Provide a favorable climate for program use by public and consumer-based private nonprofit organizations. Non-profit organizations will use and keep the programs for their intended public purpose, and should receive priority consideration as applicants.

10. Be directly funded by the federal government. The direct federal role is mandated by geographic and other

factors that are unique to rural areas, including the lack of local housing lenders.

11. Participation by all states, each of which must adopt a housing policy and develop working programs complementary or supplemental to those of the federal government. Taxpayers in any state not complying would lose their federal home ownership tax deductions.

C. Federal efforts and resources (national programs) should concentrate on targeting assistance to:

1. Low and very low-income households,

2. Occupants of substandard and overcrowded housing,

3. Special groups, including minorities, farmworkers, American Indians and the homeless, and,

4. Low-income communities.

D. Resources must be provided to develop the capacity of housing authorities, consumer-based nonprofit organizations and associations for using programs and maintaining housing in the public interest. HAC recommends expansion of the S. 525 and 533 programs, technical assistance and housing preservation grants, respectively, front-end financing, and funding of the S. I-II Planning Grant Program (expanded for use by American Indian tribes and states) as initial steps toward achieving this objective.

E. Homeowner tax deductions, should be capped, and converted to a credit.

F. Federal data resources on housing conditions and trends, including those in the Census, should be maintained.

- Existing resources should be preserved , particularly the housing information included in the form for the 1988 dress rehearsals for the 1990 Census, with housing quality characteristics such as plumbing preserved in the 100% sample, and number of bathrooms and water and sewer facilities kept in the one-in-six sample;

- The American Housing Survey should be restored to its prior sampling capability, including the extra sample in rural areas, and published annually.

G. Annual reports to the Congress, by the financing agency, which provide complete statistical data on housing costs, incomes, rents, ages served, minority service, etc., should be required.

H. Site and project selection policies should be adopted which are adaptable to the needs of each rural community. Cost may dictate high density housing in one community, whereas groups of medium density units scattered throughout a town may be more acceptable in other communities. As long as cost is reasonable and verifiable relative to local conditions, if feasible it should be permitted. Such an approach would better mesh the programs with local planning objectives.

I. Separate and self-supporting federal assistance should be provided moderate-income households whose incomes are too high to qualify for FmHA assistance and too low to meet private or state HFA requirements. To enhance affordability, deferred payments would be permitted, but borrowers would repay any such subsidy with interest.

- The moderate-income borrower, whose income falls within 80-100% of the area median, is continually excluded from government assistance, and increasingly unable to afford home ownership as a result, he or she reacts negatively against efforts to help house the poor;
- See the recommended guaranteed loan program.

J. Mortgage revenue bond programs should continue as a resource for housing moderate-income households, who are unable to afford private financing.

K. A simple, efficient, just and responsive complaint or appeal procedure, adequate for use by local consumers, should be adopted. Penalties should be included for federal officials who fail to respond to complaints or adequately pursue appeals procedures.

V. Programs and Financing

Workable, existing programs must be revised to permit meeting national goals. New programs must be added so that a flexible approach can be adapted to varying needs. We have examined the present FmHA Title V programs and recommend several changes and additions to match resources to rural need.

A. Home Ownership

1. Continuation of the S. 502 program with 60% set aside for low-income households.
2. 40% of S. 502 funds set aside for very low-income households:
    a. Three alternative programs are recommended.: An "Affordable Housing Program" which utilizes capital

cost (grant) financing, a "Deferred Mortgage Program", and a grant program to consumer-based nonprofit organizations and public bodies, modeled after the S. 533 Housing Preservation Grant Program.

(1) Affordable Housing Program

(a) The borrower receives a market rate loan to an affordable level, but for no less than 10% of the cost of the housing unit.

(b) Up to 90% depending on income, taxes, etc, is provided as capital cost financing.

(c) Mortgage payments may be partially deferred when income decreases or taxes and insurance increases affect affordability.

(d) The capital cost financing would be treated as principal in the event of sale except that partial forgiveness would begin at the 15th year and culminate in a 50% charge off when held for the full term of the mortgage.

(e) Deferred mortgage interest is subject to recapture upon disposition of the property. As an incentive for home maintenance a deduction of 10% on government recapture would be made after 15 years in residence. Another 10% deduction would be permitted after 25 years, and borrowers holding their loans to full term would have recapture cut by 50%.

(f) Capital cost financing reduces the affordability threshold by eliminating principal and interest payments. It has less of a budget impact than loan plus annual subsidies. (Note: Senator Chiles' credit reform proposal, if enacted, would constrain the current subsidized loan program.)

(2) Deferred Mortgage Program:

(a) Borrower receives a loan for the full amount needed.

(b) The loan is subsidized in that the borrower pays at a 1% rate to his/her level of affordability. The balance is deferred.

(c) Deferred mortgage may be converted, in $1,000 increments, as a borrowers' repayment ability improves. Alternatively, mortgage amount can be converted to deferred status when payment ability decreases;

(d) Recapture of subsidy is the same as for current S. 502 program; revised to include the incentives noted in (1)(e), above.

(e) A deferred mortgage program enables FmHA to assist those with considerably lower incomes than can now be assisted.

(3) Competitive Home Ownership Grant Program

50% of S. 502 very low-income funds would be granted on a competitive basis to consumer-based nonprofit organizations and public bodies, including units of local government. The program would enable grantees to use the funds as grants, loans or subsidy to assist very low-income households purchase new or existing homes. It would operate similar to the S. 533 preservation grant program with a weighted competition based on:

(a) housing need and substandard housing in the community area;

(b) the extent of very low-income households in need of housing;

(c) matching funds, with a priority for subsidized matching funds;

(d) distance from metropolitan centers; and

(e) affordability by the client population.

b. Comparison of the Three Plans

(1) Affordable Housing Program reduces incomes served, from current levels, with maximum cost savings to the government.

(2) By virtue of using subsidized loans, the deferred mortgage program reaches lower incomes than those served by the affordable housing program, but at somewhat more cost to the government.

(3) The competitive grant program offers local flexibility and initiative, while still restricting benefits to lower-income families.

c. Options Within All Programs

(1) Use of self-help housing to increase borrower equity and decrease government subsidy cost.

(2) Construction of expandable starter homes, with understanding borrower may obtain additional funding as either affordability increases or family increases in size, etc.

(3) Modest housing variations such as "warm and dry" houses, provided they meet voluntary national model, or state-wide codes (and FmHA thermal standards).

(4) Use for new construction, purchase or repair and/or rehabilitation (competitive grant program not used for repair and rehabilitation except as incidental to purchase of existing dwellings).

3. Expand the Housing Preservation Grant program (S. 533) for repair and rehabilitation in areas with concentrated need. It should be funded at a minimum annual level of $100 million.

4. Continue the S. 504 very low-income repair program for meeting needs in areas not covered by S. 533.

   a. Permit 33-year term when property will be repaired to meet standards

   b. Encourage combinations of loan and grant.

   c. Establish a pool of grant and loan funds to be used, in addition to state allocation, by organizations who obtain non-federal matching funds (as an incentive for participation by states and local organizations).

   d. Permit nonprofit organizations who do more than 10 S. 504 repairs per year to charge recipients for reasonable administrative costs. This will encourage formation of rehabilitation firms in areas where they are lacking.

5. Mandate implementation of S. 527 condominium financing, with an emphasis on its possible use in areas with high land cost or limited available land. Permit a full range of multifamily designs in order to reduce costs, particularly land costs.

B. Rental and Cooperative Housing

1. Prohibit prepayment of S. 515 50-year subsidized loans (current program), or permit prepayment after 20 years if the borrower repays all subsidy to the government.

2. Legislate S. 515 Capital Cost Financing in lieu of loans and interest subsidy, to consumer-based nonprofit and public sponsors, for projects limited to low-and very low-income households. Require permanent retention of the units for intended purpose, or similar public use.

    a. S. 521 rental assistance would be provided with loan approval for a minimum of 50% of units (similar to the HUD S. 202/S. 8 combination). These projects would receive a priority for rental assistance beyond 50% of units.

    b. A minimum of 50% of tenants must have very low income.

    c. The overall purpose of the capital cost financing program is to provide more affordable housing, and build public capacity to avoid prepayment, housing stock loss, and tenant displacement.

    d. A priority would be given to S. 515 spending with a minimum 20% of the annual appropriation reserved for the capital cost financing program. Unused funds will be merged with the appropriation for the following fiscal year.

3. To promote Farm Labor Housing, increase the level of appropriations commensurate to need. Legislate a five-year increase in funds to a $100 million level.

    a. Provide grant priority for migrant housing and expand loan program for year-around workers.

    b. Continue permitting use of a small percentage of the grant appropriation as administrative funds - for nonprofit developing and packaging of applications.

    c. Legislate change in FmHA appraisal process in order to recognize imposed costs (Davis Bacon, for example) not required in comparable rental structures. Legislate right to appeal multifamily housing appraisals.

4. Rental Assistance. Increase appropriation to provide subsidy for a minimum of 75% of units produced under Section 515 and 100% of farm labor housing units.

5. Legislate exemption commensurate to those of the Internal Revenue Service for computing tenant payments.

6. Expand S. 533 Housing Preservation Grant program for areas with extensive rehabilitation needs. Current law permits this but a paucity of funds and administrative inaction have prevented implementation.

7. Legislate a new loan and grant program to purchase and rehabilitate facilities to be used as shelters for the homeless. Make available to any sponsoring organization with commitment and or financial ability to provide accompanying services and administration.

C. Other Housing Programs

1. Reserve 5% of total program funds for use in states which provide new or expanded complementary programs, without diminution of existing programs.

2. Loans and capital cost financing to public bodies for facilities to house comprehensive migrant farmworker services.

3. Convert and expand the dollar level of the rural housing site loan program (available only to public and private nonprofit organizations) to a limited subsidy, by charging a flat 5% interest. Maintain 3% interest for self-help land development fund.

4. Provide predevelopment loans for public and private nonprofit organizations.

5. Substantially increase the level of funding for Section 525.

   a. Use outreach funding to build consumer nonprofit and public capacity, with a priority for areas with substantial need and limited nonprofit response.

   b. Continue housing counseling as an eligible fund use.

   c. Provide an in-state priority when S. 525 leverages funds from state or local government.

6. Require that county offices notify borrowers of legitimate local organizations who provide gratuitous counseling to delinquent borrowers. County offices not in compliance would have liquidation requests delayed.

7. Use of rural housing programs on Indian reservations.

   a. Pledging of leasehold interest in alloted or trust land is an acceptable form of security upon which to base a loan.

b. In the event of default, where the security interest is in alloted or trust land, FmHA may only liquidate after offering a rignt of first refusal to transfer the interest to:

(1) an eligible tribal member,
(2) the tribe,
(3) a wholly owned tribal corporation,
(4) an Indian housing authority established by the tribe.

c. Once liquidated the FmHA shall not sell, transfer, or otherwise alienate the property, except to:

(1) an eligible tribal member,
(2) the tribe.
(3) a wholly owned tribal corporation,
(4) an Indian housing authority established by the tribe.

8. Last resort housing. In areas where an extensive need is not being met by private, local, state or federal programs, the agency would be given authority to directly contract with a local, state, regional or national consumer based nonprofit housing organisation or provider to:

a. purchase and subdivide land (including surplus federal land);

b. develop and sell housing units;

c. construct and operate rental housing;

d. transfer rental housing ownership to eligible organizations.

Approval authority for this program would be vested only with the FmHA Administrator.

9. Housing inventory is required to be used in the following priority order:

a. resale to eligible participants;

b. transfer to Section 515 use;

c. transfer to organizations as housing for the homeless;

d. offered to local government for retention and/or use;

e. offered to state government for retention and/or use;

f. sale to anyone..

10. Guaranteed housing program for households with moderate income (up to 115% of median). Legislate a departure from traditional time-consuming procedure. Agency would provide lenders with rules - housing sizes, codes, income eligibility, etc - and establish a procedure to certify them. Once certified, lenders approve loans and provide certification to the agency, who automatically guarantees. Agency and Office of Inspector General will make periodic account audits to assure program is properly operated and meeting objectives.

11. Authorize agency to "land bank" inventory land, including site loans and farm inventory properties situated adjacent to eligible rural communities. Subsequent use for rural development purposes, limited to housing, employment or services for low-income people. The agency would dispose of reposed property by:

    a. offering it to a consumer based nonprofit organization;

    b. offering it to the local government for land banking until the public had determined a good use;

    c. offering it to the state government for land banking in accordance with a state land use plan;

    d. holding it until a consumer-based nonprofit, locality or state had developed a land use plan.

NOTE: Priority for purchase of all other FmHA farm inventory should be for sale to eligible family farmers.

12. Require grandfathering of approval for previously approved plans and specifications, which meet agency thermal standards, and permit reuse of certified plans.

13. Provide authority for either self-insurance or for the agency to contract for insurance in areas where the costs of liability and/or fire and extended coverage have become prohibitive, and negatively affect the program and/or eligible consumers.

14. Expand the self-help technical assistance program. Require agency officials to perform outreach functions

to publicize and encourage use of this program. The cost of self-help grants are more than offset by subsidy savings resulting from lowered housing cost.

VI. A Delivery Structure for Meeting Rural Housing Needs

HAC proposes the creation of a cabinet-level Rural Development Department (community, economic, farm and housing programs) to meet the needs of rural America. To meet immediate objectives we have added a section which restructures and reforms the Farmers Home Administration.

A. The Farmers Home Administration (FmHA) currently lacks the mandate, and commitment to social purposes that are necessary to provide necessary services in Rural America. This proposal is a practical attempt to use the best of what is now in place at FmHA as a foundation to create a better vehicle.

Its chief features are:

- A mission to promote the welfare of low-income rural households and communities, through social services and development programs.
- Comprehensive scope of services, including community and economic development, family farm programs, housing and related programs.
- Program coordination.
- Consumer involvement and monitoring.
- Outreach to potential rural consumers, especially those in the greatest need of service.
- Improved appeals processes.
- Strengthened merit system for State Director appointments.
- Regional Administrators.
- Increased employment entry and training opportunities, particularly for minorities.
- Focussed treatment of farmworker an American Indian issues.
- State and local government roles in program delivery, use, and supplementation

B. The following programs would be transfer to the proposed Dept. of Rural Development.

1. All of FmHA programs except farm programs not intended for family farmers;

2. Other rural development functions now vested with the USDA Undersecretary for Small Town and Rural Development;

3. The Economic Development Administration, except for its urban programs;

4. The rural portion or share of Community Development Block Grant, S, 8 and other HUD programs;

5. Other selected programs from other agencies;

C. Congressional Jurisdiction:

The Congressional committees wich now have jurisdiction over existing programs would retain jurisdiction. In some cases some administrative funding responsibility might be transferred.

D. Outline of the Department of Rural Development

1. Agencies:

   a. Economic Development Administration (EDA)

      (1) EDA programs
      (2) FmHA B & I program
      (3) FmHA rural development loan and grants

   b. Family Farm Administration

      (1) Existing FmHA programs
      (2) Small farm cooperative program

   c. Rural Community Development Administration

      (1) Water & Waste loans and grants
      (2) Community facilities loans
      (3) Planning grants

   d. Rural Housing Administration (See Section V on programs for scope of service)

2. Other Department Offices (not all inclusive)

   a. Administrative and financial support offices

   b. Regional finance centers

c. Office of Research, Planning and Coordination

d. Office of Consumer Affairs

(1) Outreach services
(2) Ombudman services

3. Organizational Structure

a. Secretary, Deputy Secretary

b. UnderSecretary for Rural Development Programs

(1) Assistant Secretaries for each of the four agencies

c. UnderSecretary for Administration and Support Programs

(1) Assistant Secretary for Administration

(2) Assistant Secretary for Support Programs

(a) Office of Consumer Affairs

(b) Office of Research Planning and Coordination

(c) General Counsel

(d) Inspector General

d. UnderSecretary for Indian and Minority Programs

(1) With authority to enforce compliance within total department

e. Area Directors

(1) Same as Federal regions

(2) Supervise State Directors

(3) Technical support staff

(4) Finance centers (replaces single FmHA center)

(5) Outreach

f. State Directors

(1) Administrative responsiblity for supervising local field offices

(2) Coordination with state and/or Indian tribes

g. District Directors

(1) Application and processing center for all programs except farm and single family housing

h. County Directors

(1) Farm and single family housing programs

(2) Outreach for department

E. Essential Elements for the New Department

1. The basic physical structure of the FmHA would be utilized, but modified as noted throughout this Section.

National office
Regional Directors and Regional Finance Centers
State Offices (46)
District Offices (250+)
County Offices (1,900+)

The FmHA structure and division of responsibilities is ideal for convenient service to rural people and communities. State Directors, at times, have proven an impediment to full utilization of existing programs. HAC urges legislation requiring reinstitution of the Area Director position. Ten Area Directors (corresponding to the 10 federal regions) would relieve the Administrator of an impossible supervisory burden of 1:46 persons (not including National Office Staff). The use of regional finance centers would decentralize one of FmHA's biggest problems, and enable provision of improved financial and management services and data to agency managers and the public. The Area Director position should be "Schedule C" to permit each new administration the opportunity to develop and institutionalize policy change.

2. The State Director position should remain political. However, selection of State Directors should be changed to limit chances that unqualified persons will be appointed. The following criteria should be adopted:

a. Published qualifications and experience criteria

b. A merit system, including equal employment opportunity, used for selection of qualified candidates

c. A Senator would nominate up to 5 persons from the qualified list. The final decision would be made by the Secretary.(Senators normally nominate State Director caniidates. In the event nominations are through different political agents, the same rules would apply.)

3. State Directors could be rotated, by the Secretary perhaps every 4 to six years, to inhibit development of individual policy in a given state.

4. State offices would be required to develop a planning process, including needs, goals and priorities, for using the departments programs and for coordination with state and tribal governments. The use of the last resort housing program would be incorporated in these plans.

5. Congress would mandate immediate escrowing of taxes and insurance in the housing programs.

6. Training: In addition to technical program training, a concentrated effort must be made to stress the role of social service. Training should include sensitivity to minority populations and a focus on the degree of their needs for department programs. Training center orientation for new professional employees should be required.

7. Minority Hiring: Would be intensified so that employment more closely reflects the racial composition of the eligible (target) population.

8. A paraprofessional (aide) position, would be established with a range of grades, and ultimate hiring preferance, to permit employment entry by the agency's constituent population.

9. An ombudsman office would exist in the department's national headquarters. This office would be independent (somewhat akin to that of an Inspector General) and required to file an annual independent report to those committees of Congress witn oversight for department programs.

10. Require outreach by field offices, and include it within the performance rating criteria.

11. Provide special recognition for State Directors and/or other employees who:

a. use all allotted loan and grant funds,

b. cooperate with state, tribal and local agencies to the point supplemental and/or joint funding increases the scope of the program or reduces income served.

12. Create a housing advisory committee with rotating terms and a membership balance among development, advocate and user groups, to advise the Assistant Secretary for Housing.

   a. nominations to the committee would be published in the Federal Register, for comment. This procedure would lessen the possibility for a "captive committee"; one which tends to agree too readily;

   b. this committee would be given the oportunity to make input to regulation changes prior to publication;

   c. committee would bring problems to national attention at an early state, and enhance possibility for early solutions; thus saving time for the work at hand;

   d. the committee would be charged to make a separate, and annual report to the Housing Subcommittees in each House of Congress.

13. Establish similar, but separate, advisory committees for farmworker and Indian housing.

14. Establish realistic delegation of approval authority, commensurate with technical skills, and reduce the number of levels in clearing process to save time and money for the public.

15. Computerize loan servicing to reduce disproportionate time spent on this part of the program.

16. The thrust for all programs administered by the Department must be:

   a. provision of a broad range of services with flexibility for adaption to local needs

   b. servies targeted to those most in need.

VII. An Alternative Delivery Structure

A. The recommendations in this part are made for the Farmers Home Administration (FmHA) as a transition agency prior to ultimate establishment of the Department of Rural Development.

B. FmHA would be reformed. This reform would include changes to the housing programs as noted in Part V, and incude a number of structural changes.

C. Structural changes, closely related to those for the Department of Rural Development.

1. Establishment of Area Directors and Area Finance Center
2. State Director appointments and rotation
3. Escrowing taxes and insurance
4. Training reform
5. Minority hiring goals
6. Paraprofessional positions
7. Outreach and performance ratings
8. Awards or recognition for loan and grant making
9. National Housing Advisory Committee
10. Streamlining loan approval
11. Increased computer capacity
12. Targeting of programs

D. Other Reforms

1. Establish a separate Deputy Administrator position for farm worker and Indian programs. Both of these groups have distinct problems and are more difficult to provide services to, than those for other rural populations. The incumbent of this position would be given authority to enforce program delivery for his/her constituency. The Deputy Director level is necessary to ensure participation in policy and decision meetings with the Administrator.

2. Staff should be expanded, but without agricultural graduate requirements, to meet social objectives. FmHA must have an infusion of personnel from nonfarm disciplines. Field Office staff should also more closely mirror the minority composition of the FmHA eligible population. Indians should be provided preference for hiring and placement on reservation offices.

3. Agency must eliminate idea that it is a bank and adopt a service agency concept.

4. Reduce the number of review levels for multifamily loan and grants. Currently the number of reviewing officials leads to time loss and intra-agency contradiction.

5. Change the appeal process to include use of either special appeal officers or Administrative law judges. Include multifamily housing loan appraisals as appealable.

6. Change all exception authorities, within program regulations, to permit applicants the right to request consideration. Currently, only state directors can initiate a request for an exception.

7. Change philosophy that loan servicing is the ultimate priority. Strive to incorporate a more humanistic servicing policy within a balanced program of loan and grant making and servicing.

VIII. Relationship of States to Rural Housing Needs and Programs

A. Federal and state programs should complement or supplement, not supplant each other. The housing needs of this country surpass the available resources of either.

B. Federal rules must include waiver authority to enable agencies to participate in joint funding proposals which benefit local communities or enhance affordability.

C. Suggested state roles. The categories noted below represent roles supportive of federal program, and are not an implication that state financing programs be diminished. Quite the contrary. States should expand their own programs, but act to supplement individual federal programs as necessary to target assistance.

1. Administrative support for public and consumer based nonprofit housing programs.

2. Develop outreach components (for federal and state programs) within state government.

3. Use excess HFA reserves (amount beyond that needed to maintain bond rating) for housing subsidy.

4. Provide state rental assistance, which can be used for tenants in Section 515 projects.

5. Pass statewide anti-exclusionary zoning ordinances.

6. Require states to have a housing plan and programs to be eligible for federal rural housing programs. In states without these, homeowners would lose their federal home owner tax deductions.

7. Provide construction financing for low-income housing.

8. Provide funds to leverage federal resources.

9. Finance land banking. Sell developed land at discount when used for low-income housing.

Appendix A

Comparing Cost to the Government of Alternative Home Ownership Finance Mechanisms for Very Low-Income Households

I. Basic Assumptions

A. For comparison purposes a $45,000 dwelling is used.

B. For affordability purposes taxes are $400, insurance $200, maintenance and utilities $1,000. While these figures vary widely in actual circumstances, they serve here as a uniform constant.

C. Recapture of subsidy is not included, in any of the examples, except that principal is recovered in the deferred mortgage example. Where capital cost financing is used (grants), it is logical to expect that a major portion would be recovered (recaptured) upon sale, since it is principal. However, in this example no recovery is shown, to prevent distortion.

D. These data assume that borrower circumstances and subsidy remain constant. While not probable, it keeps the computations simple and uniform.

II. Alternative Mechanisms

A. 502 Loans with Interest Subsidy

1. Formula:

a. Monthly amortization factor (1% per annum in this case) x total months (33 years) = cost per $1,000 of loan.

b. Subtract principal(from a).

c. Multiply result by number representating difference between interest rate (1%) and government rate of borrowing (currently 9%).

d. Multiply this result by the unit cost (which, divided by 1,000 = principal amount). This is cost to the government.

2. 45,000 loan @ 1% for 33 years

a. 2.97 x 396 = 1176.12
b. 1176.12 - 1000 = 176.12
c. 8 x 176.12 = 1408.96
d. 45 x 1408.96 = $63,403.20 cost to government

3. Explanation - up front costs are buffered by initial sale of notes (certificates of beneficial ownership) to the Treasury and/or the public.

B. Capital Cost Financing (grant) plus Market Rate Loan to the Limit Affordable

1. Formula:

   a. Market rate (9%) mortgage to the extent affordable. No cost to government (this is a presumption, since servicing costs are a real factor, and are not added).

   b. Capital cost finance - initial capital cost only. Example assumes direct appropriation and no return to government (program is based on an FmHA recapture formula on any sale). Amount is that beyond applicant affordability at market rate.

2. $30,000 capital cost finance and $15,000 9% loan

   a. $30,000= cost to the government

3. Assumes - no subsidy on market rate mortgage for life of the loan.

C. Subsidized Deferred Mortgage

1. Formula:

   a. Payable mortgage portion, same formula as in II A.

   b. $10,000 deferred mortgage @ 9%.

      1) amortization rate x total months,
      2) result x number of thousands in house, project or program,
      3) deduct principal. This = cost to the government.

   c. a + b equals total government cost.

2. $35,000 loan at 1% - 33 years and 10,000 deferred mortgage at 9% cost to the government:

   a. 1) 2.97 x 396 = 1176.12
      2) 1176.12 - 1000 = 176.12
      3) 8 x 176.12 = 1408.96
      4) 35 x 1408.96 = 49,313.60

b. 1) 7.92 x 396 = 3136.32
   2) 3136.32 x 10 = 31,363.20
   3) 31,363.20 - 10,000 = 21.363.20

c. 49,313.60 + 21,363.20 = $70,676.80 cost to the government.

D. Competitive Grants to Organizations with Matching Funds

1. Asumption - grantee used 20% of grant for administration (in this example $9,000) and matches the amount needed for capital costs. Government cost per unit is based on $22,500 plus $9,000 administration, or $31,500 per unit.

2. Formula: Same as in II B.

3. Cost to government = $31,500.

E. Summary

	Subs. Loan	Capital Cost Financing & Afford Mtge.	Deferred Mtge.	Competive Grant
1) Housing Costs	$ 45,000	$ 45,000	$ 45,000	$ 45,000
2) Unsub. Loan		15,000		
3) Sub. Loan	45,000		35,000	
4) Grant		30,000		31,500
5) Defer. Mtge.			10,000	
6) Cost to Gov't.	63,403	30,000	70,677	31,500
7) Afford. Income	$ 10,680	$ 10,087	$ 9,490	As low as $ 5,333*

* Actually unknown and totally dependent on the form of finance the recipient organization uses and the form of matching funds. The $5,333 assumes total grant.

F. Alternative Program Affordability at Maximum Subsidy Level

	Affordable Income at 30% for PITIUM		
	$50,000 Unit	$45,000 Unit	$40,000 Unit
Current FmHA Loan Subsidized to 1%	$ 11,273	$ 10,680	$ 10,087
90% Capital Cost Financing, 10% Market Loan	6,917	6,760	6,600
90% Deferred Mtge. 10% Subsidized	$ 5,927	$ 5,866	$ 5,810

Appendix B

A Turnkey Approach

Homeownership is the tenure option preferred by many rural households, including many who are poor. A recent study by HAC finds that most of the applicants to the FmHA Section 502 homeownership program were previously renters, some in subsidized projects, who had been unable to obtain mortgages from other lending resources. The study also indicates that for such households and for a variety of reasons homeownership assistance may be a less expensive subsidy than rental project financing.

Given a homeownership demand among low-income rural renters and the presence of major rental and homeownership programs within FmHA, it may be surprising that these resources provide little opportunity for transition from rental to ownership tenure. A turnkey approach, permitting low-income renters to buy their homes as their incomes rise, would appear particularly suitable to the rural tradition. However, legitimate concerns over the preservation of the low-income housing stock have erected tremendous barriers to a turnkey approach. In particular, FmHA requires that units whose rent it subsidizes be occupied by low-income renters for at least 20 years, and reinforces this requirement with mortgages whose 50-year terms are the longest required by any federal program.

Nevertheless, a major problem at present faced by FmHA may offer a unique opportunity for transitional housing. FmHA's inventory of repossessed single-family homes is a tremendous agency burden which could become a tremendous resource. These units could be rented, with a first option to buy, to households who may not currently qualify for FmHA's homeownership program because of their youth, lack of demonstrated creditworthiness, incomes, or economic setbacks. Rental assistance could be tied to these units until the owners exercise their purchase option. Although the subsequent owners could then sell the units out of the program, the loss would be no greater than that entailed by the current homeownership program, and would be far less than the losses now accruing from carrying the units in inventory or selling them at hugh discounts.

Nonprofit organizations and public agencies would be eligible owners and managers of turnkey projects financed by FmHA. They would assume mortgages from the S. 502 program, with a portion of the payments deferred until the units are purchased by the tenants. Rent to cover the remaining PITI, operating and management costs would be subsidized through FmHA's rental assistance program.

RESOLUTION OF THE BOARD OF DIRECTORS
OF HOUSING ROUNDTABLE, INC.
ON THE INGREDIENTS OF A NEW NATIONAL HOUSING POLICY
October, 1987

Background

Over the past six years as the current Administration has initiated and adhered to several broad policy objectives, the perception is that housing as a national priority has diminished and Federal support for housing (in terms of direct financial assistance and tax incentives) has been dramatically reduced or changed. As a result, the nation is experiencing the lowest percentage of home ownership since the end of World War II. In fact, this percentage has been declining since 1980 with first-time homebuyers being the most dramatically affected.

In an effort to fill the vacuum created by the sharp cuts in Federal housing support many local and state governments and private entities have worked hard to adapt to these dramatic changes and to be creative in the initiation of housing developments to meet local needs, through public-private initiatives. Yet, the problems associated with housing affordability and availability, particularly for the low income and elderly, have minimized the impact of these efforts because of the magnitude of the housing need, especially in urban areas.

The housing gaps that have been created by the Federal withdrawal of support in housing that are not likely to be filled by local and state efforts and the rising pressure and public awareness of the homeless situation have intensified the concern of those in housing of the lack of commitment to housing as a national priority.

As a result, there has been a ground swell of support first in the private and public sectors, through individuals, groups, and local and state governments, and now at the U.S. Congressional level to reevaluate and redefine the nation's commitment to housing. This exercise will be difficult because it will have to be accomplished being mindful of the need to reduce the Federal budget deficit. A necessary reality for any future national housing policy must appreciate the need to use all resources at the private, local, state and Federal levels, learning from past mistakes, so that the maximum housing needs of this country can be met.

RESOLUTION

THEREFORE, HOUSING ROUNDTABLE ENDORSES THE FOLLOWING BASIC PREMISES AS THE FOUNDATION FOR A STRONG NATIONAL HOUSING POLICY:

1) Home ownership should be actively fostered because it leads to a more stable form of government and a citizenry that is more involved in improving community life. Home ownership is one of the

single-most important accomplishments in the United States that attracts the attention and admiration of the rest of the world. Home ownership has helped provide the foundation from which this country has become an economic leader. The realization of the "American Dream" for our citizens should never be forgotten. It should be viewed as the number one priority after national defense.

2) Safe and decent shelter should be available to all of our citizens who make a reasonable effort to obtain it. When assistance is rendered, everyone should pay part of the cost for it, the individual, the city, the state and the Federal government. Although the costs of such assistance are substantial, the benefits derived far outweigh them.

3) At least minimal shelter should be provided for all others. There is a core group of people who no matter how much assistance and home ownership facilitation is provided will not be able to obtain their own shelter. Their basic right and need for shelter should not be ignored.

HOUSING ROUNDTABLE SUPPORTS THE FOLLOWING FEDERAL HOUSING ASSISTANCE EFFORTS THAT ARE WORKING WELL:

1) Federal tax incentives, such as tax deductability of home mortgage interest and real estate taxes, should be maintained. Tax incentives are an efficient and cost effective way to stimulate and encourage home ownership.

2) Capital market access with government backing for middle and low income buyers is working well and should not be tampered with at this time. The stable and less expensive supply of mortgage credit provided by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association through the secondary market is a valuable operation in minimizing the affordability constraint and should be maintained. The Federal Housing Administration and the Veterans Administration are essential Federal housing programs. Recent refinements in their operations have been good steps towards reducing costs to the government, minimizing fraud and abuse and reducing high foreclosure rates.

HOUSING ROUNDTABLE HAS IDENTIFIED SEVERAL SPECIFIC OBSTACLES OF CONCERN WITHIN THE HOUSING AREA AND ENDORSES THE FOLLOWING POSITIONS:

Thrift Industry. The thrift industry, the former primary vehicle for housing finance and government subsidy is in transition moving towards providing broader-based financial services. The subsidized, weaker thrifts which have been paying substantially highers rates to attract savings and charging a lot less for mortgage loans in an attempt to grow their way out of their difficulties, must be restrained from hurting the healthy thrifts as well as other mortgage lenders. Enforcement activities should be monitored and strengthened so that regulators can fulfill their job responsibilities as specified.

The Management Consignment Program (MCP), as developed by the FSLIC, to substitute new management in failing thrift insitutions should be expanded and should incorporate and foster a management philosophy that first increases the marketability of the thrift by disposing of its bad assets and then selling the thrift in the market place. "Shrink and sell" should be the MCP marching orders.

Appraisal Industry. The efforts in Congress initiated by Representative Doug Barnard from Georgia, and within the appraisal profession itself should be supported and strengthened. The appraisal is one of the most important elements in the mortgage lending process. Therefore, establishing industry-wide standards to ensure the correctness and accuracy of the appraisal is essential as well as minimizing possible appraisal fraud and abuse through industry regulation.

Housing Regulation. The housing delivery system has been impeded by its over regulation. Efforts should be initiated to minimize regulation and certainly to stop the continual changing of the rules. While consumer protections and safety are important, unnecessary housing regulations do hamper mortgage lenders' and producers' efforts to provide affordable housing as efficiently as possible.

For example, the Real Estate Settlement Procedures Act (RESPA) no longer fulfills its intended purpose and in fact interferes with the housing delivery system. Section 8 of the Act, in particular, which prohibits fees for referrals of business for related services, incident to or part of the settlement service, cannot now be considered proconsumer. It interferes with the systems that are available to enhance the industry and its efficiencies. Combined services, which the Act inhibits, are often the most efficient.

There is a real need within the mortgage lending industry to minimize corrupt activities, in general. There should be higher penalties for fraud and other crimes as well as stricter enforcement to eliminate repeat infractions as well as discouragement for violators to remain in the profession.

Housing Assistance/Home Ownership Facilitation. The housing needs of low income families are not being adequately met by existing governmental assistance programs.

Private, religious and local government participation, as exemplified in the Nehemiah project developed by the East Brooklyn Churches in New York City, should be fostered and encouraged. The excitement about and worthiness of the Nehemiah project is that it not only provides affordable housing to families earning incomes between $20,000 and $40,000, but frees up public housing units previously occupied by these families who had no other place to find affordable housing, thus enabling public housing to be used for its intended purposes.

The maintenance and retention of expiring, subsidized housing units needs to be addressed. The supply of affordable rental housing stock is limited in many markets. With the Section 8 Certificates approaching the twenty year maturity mark, owners will be tempted to convert these units to market rate, and thereby exacerbate the existing low income rental housing stock crisis.

In markets where insufficient low income housing exists, some governmental incentive programs need to be considered, to foster housing development in these market where local and state governments have limited resources to meet these pressing housing needs. In many markets, the waiting list for affordable housing units is large and continues to grow. Although a return to Title 8 housing is not recommended, some creative incentives for the volume production of affordable, low income housing are needed. The tax credit provision of the 1986 tax bill has proven to be flawed and inadequate to the task.

Housing needs of the first-time homebuyer should be monitored and programs encouraged to assist this group. The legislation, introduced by Senator Dennis DeConcini from Arizona, to establish individual housing accounts, to aid first-time homebuyers to save for downpayments should be supported and other similar legislation initiated.

Housing needs of the first-time homebuyer have occasionally and successfully been met through development of sweat-equity programs. Sweat equity programs should be allowed to develop to their fullest potential, through revision of government regulations. These programs are by nature small scale in terms of the number of units produced and require a certain level of demonstrated skill on part of the participants. The benefit of sweat equity programs is that they have tremendous success in fostering individual accomplishment and pride in having a "hands on" participation in the building of one's home. The support of sweat equity programs should be tempered with a realiziation of the potential for appraisal fraud to the detriment of the homeowner. Therefore, appropriate precautions should be incorporated in these programs. Sweat equity programs should be part of the nation's commitment to housing.

Homeless. The permanent and temporary housing needs of the homeless need to be addressed. However, the plight of the homeless is the result of root causes other than just the lack of affordable housing. Other components, such as lack of education, mental health problems, loss of basic industry jobs (i.e. structural unemployment) and the development of a "ghetto mentality" contribute to the serious homeless situation that deserves immediate attention.

Affordability. State and local governments should not unnecessarily burden housing development with builder taxes and fees, and unnecessary zoning and building codes and delays that aggravate an already serious affordability problem. In addition, a reexaminiation of a process where local governments require certain infrastructure developments or improvements before the building permit is approved only result in higher housing costs for the consumer as well as delays in the process. The question of financing infrastructure should be addressed separately so that those who use it should share fairly in its cost.

Single-Family Mortgage Loan Limits. A conforming loan limit index should be developed for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation based on local markets and should proportionately reflect conditions in each market (similar to the FHA limits), but with differentials, primarily related to variations in median income.

Each year FNMA and FHLMC may raise their purchase limits as determined by an index of home prices compiled by the Federal Home Loan Bank Board. This limit, presently at $153,100, while probably adequately serving the market in Oklahoma, for example, would be grossly inadequate in a higher priced market, such as southern California.

Product Liability and Related Issues. Radon, asbestos, toxic wastes and other similar substances raise product liability concerns that need to be treated sensitively and fairly by Federal, state and local governments.

Communication of the issues should be presented in a balanced way enabling a more reasonable and intelligent approach to be developed to address these concerns. Consciousness raising publicity concerning these substances often is emotional and thus acts as a catalyst to influence the development of mandatory standards and costly new construction requirements by state and local governments before the effectiveness of the standards can be proven. This rush to solve the problem often results in unnecessary delays and costs for the builder and others in the housing delivery system. The issues involved are very complex and thus warrant careful examination before standards are established and enforced.

HOUSING ROUNDTABLE

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TESTIMONY
BEFORE THE
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMPONENTS FOR A NEW HOUSING POLICY

MHI
NMHF
October 5, 1987

The Manufactured Housing Institute and the National Manufactured Housing Federation appreciate the subcommittee's invitation to participate in its landmark effort to develop an effective new framework for national housing policy. We believe this is a timely and bold response to a challenge of great public importance and burgeoning public need. The Manufactured Housing Institute and the National Manufactured Housing Federation are two separate organizations that have worked together to develop the following comprehensive set of comments.

The Manufactured Housing Institute

The Manufactured Housing Institute (MHI) is a national trade association representing builders of manufactured homes. There are about 120 companies producing homes in more than 300 factories across the United States. About one-third of those companies are members of MHI. These manufacturers, however, account for more than 50 percent of all manufactured homes produced annually in the U.S. MHI members also include 160 companies that supply a wide variety of goods and services to producers and consumers of manufactured housing.

The National Manufactured Housing Federation

The National Manufactured Housing Federation (NMHF) is a national trade association comprised of thirty-eight state and regional manufactured housing associations. These state and regional associations contain within their memberships over 8,000 retailers and 20,000 developers active in manufactured home sales, service and land development. Ninety percent of all new manufactured homes sold in the U.S. in 1986 were sold by NMHF affiliated retailers. NMHF affiliated developers own and operate over 1.5 million manufactured home sites across the U.S.

Background

Shelter is one of the most basic needs of humanity and the availability of decent, affordable housing has long been an object of our national policy. However, over the years, the cost of building and maintaining residential housing, whether single- or multifamily, has risen dramatically. With that rise, the deeply rooted dream of home ownership or a safe comfortable rented dwelling is fading into financial impossibility for an increasing number of Americans. The most effective way to restore these basic dreams to a growing segment of the population is by reducing the cost of creating and maintaining housing. However, even with great efficiencies, the time and expense of homes built "stick by stick" on site cannot be substantially reduced. Manufactured housing represents a viable means of cracking this price barrier and providing affordable, safe, decent and attractive housing for a multitude of Americans.

The manufactured housing alternative is a difficult option at present because of a complex and, at times, hostile legal and regulatory environment that exists. However, it is within the power of Congress and the executive agencies acting at the direction of Congress to revise the environment to allow the increased use of manufactured housing. Ultimately, this will help answer the nation's growing housing needs in a way that site-built housing alone cannot answer. Manufactured housing—affordable, decent, safe housing—must be a part of any overall solution to the nation's housing shortage.

First a brief look at the history of the federal government's interaction with the manufactured housing industry and the role of manufactured housing in the general housing industry. Then we will turn to the ways in which legislative initiatives in the Congress can further the more general use of manufactured housing.

In the overall housing market, manufactured homes are dwellings built in compliance with a federal regulatory system and are fabricated in an off-site manufacturing facility for installation at the building site. Presently, manufactured homes are almost exclusively single-family dwellings. Residents may own or rent any combination of home and real property (i.e. owns home and property; owns home, rents property; or, rents both home and property). The relatively inexpensive price and the value received from manufactured housing makes manufactured homes very attractive for people of low- and moderate- incomes.

Although manufactured homes were originally referred to as "mobile homes" the vast majority are never moved except from factory to home site. This reality was recognized in Public Law 96-399, where federal laws and regulations were amended to substitute "manufactured home" for "mobile home." Historically, manufactured homes have generally been restricted by local zoning laws to specific industrially and commercially zoned areas that are environmentally and aesthetically less attractive than traditional residential zones. However, in recent years this trend is changing in many, but not all localities. Many local governments are changing restrictive land use policies to treat manufactured housing like all other forms of single-family housing. Currently, 16 states have adopted laws that prohibit zoning discrimination against many forms of manufactured housing.

Today, manufactured homes are regulated at the federal level. Although for many years, the states were the principal regulators, making it nearly impossible for manufacturers to fabricate dwellings that complied with hundreds of separate state and local statutes and regulations. Furthermore, many states were not enforcing standards for manufactured homes, and there were legitimate concerns about health and safety. So, in 1976 the National Manufactured Home Construction and Safety Standards ("NMHCSS" or "the HUD Code") went into effect providing a preemptive, performance oriented, nation-wide set of standards and regulatory scheme for manufactured housing. The HUD Code ensures that manufacturers meet uniform standards. This both protects consumers and enables manufacturers to build to one standard, not a patchwork of codes. The HUD code is a performance code rather than the prescriptive building codes of site built homes. It is uniquely designed for compatibility with the factory production process and it sets stringent performance standards for all aspects of design and construction. To ensure quality, home design and construction are monitored by both HUD and the National Conference of States on Building Codes and Standards. The HUD code allows greater economies and moderates the overall costs of manufactured homes. Furthermore, a preemptive building code fosters the application of new building technologies, a critical factor for a healthy and adaptive housing industry.

Approximately 12 million people live in over 5 million manufactured homes, according to U.S. Bureau Census statistics and an analysis of the Full Time Occupied Life of Manufactured Homes completed by MHI in 1986.

A 1984 nationwide survey of nearly 10,000 manufactured home residents by Foremost Insurance Company showed that more than 70 percent of new manufactured home buyers are under 40 years of age with an average age of 36.6 years. Their median family income is $19,800. The cost per square foot of a manufactured home is almost half the square footage cost of a site built home. In 1986 the average square footage cost of a site built home was $49.05, whereas the cost of a manufactured home was only $20.18 per square foot.

CANDIDATE ISSUES FOR A NEW HOUSING POLICY

While the following comments are specific suggestions for changes within the current framework of federal housing programs and tax policy, MHI and NMHF find a fundamental flaw in the existing framework. The organizational structure of the Department of Housing and Urban Development (HUD) has resulted in a fragmented and unfocused approach to housing. The result has been that not enough attention and resources have been effectively focused on providing quality, safe, durable shelter in a cost effective manner. This is particularly evident in HUD's administration of the manufactured housing program.

As we have mentioned, manufactured housing is the most affordable form of housing being produced today. HUD plays a primary role in our industry, and yet its focus on manufactured housing has been towards punitive actions which work to discourage the growth and development of the industry. This is partly due to an organizational structure that is driven by the single family insurance program needs, rather than efforts to target assistance towards low income housing. Consideration should be given to reorganizing HUD by establishing a specific entity within the Department that would be responsible for the implementation of all low income housing policies and programs.

The HUD Code did not deal with all the problems facing the consumers or manufacturers of manufactured housing. For example, there is virtually no method or provision for the use of manufactured housing in multifamily construction—the fire, insulation, structural strength and chassis requirements make this impossible. Likewise, neither individual consumers nor owners of large manufactured housing facilities can qualify to participate in various federal financial programs or for the same kind of beneficial treatment under the Internal Revenue Code, as the site-built industry. Moreover, there is no federal requirement mandating nondiscriminatory treatment of manufactured homes by states and municipalities in their land-use policies. MHI and NMHF believe that many of these issues can be addressed most effectively at the federal level and by doing so, Congress will put safe, affordable and decent housing within the reach of a far greater number of Americans.

Manufactured Housing Construction and Safety Standards Program

One of the six principal initiative areas that needs to be addressed by a new housing policy is the preservation and improvement of the National Manufactured Home Construction and Safety Standards Program.

The Department of HUD has taken a number of actions, and proposes others, that seriously threaten this preemptive building code system. The department has proposed to deregulate minimum energy requirements for manufactured homes, thus subjecting manufactured home builders to a variety of building codes that literally would gut the advantages of a preemptive building code system that allows simplified shipment in interstate commerce. Congress should enact legislation to require the secretary of HUD to adopt preemptive uniform energy conservation standards for manufactured homes and oppose any further efforts to repeal the National Manufactured Housing Construction and Safety Standards (NMHCSS) Act.

In addition, the industry urges federal government retention of its responsibility for developing standards for manufactured housing. HUD recently delegated the federal role of developing and maintaining standards to the Council of American Building Officials (CABO). Not only is CABO ignorant of manufactured housing techniques and technologies, but CABO is an organization controlled by local code officials and our competitors (the site-assembled home builders). This abdication of authority leaves the "fox guarding the chicken coop." The Commerce Department saw this conflict, urged HUD to avoid it and was ignored. This move is imprudent and improperly delegates HUD's regulatory authority in this area. HUD should be directed by Congress to fulfill its statutorily mandated responsibilities and neither delegate them out nor contract them away.

Congress should investigate ways of refining the current enforcement system and focus efforts on health and safety rather than every single aspect of production. This latter responsibility rightfully belongs with the manufacturers and their quality control systems and market competition.

In addition Congress should consider amending the NMHCSS Act to allow the use of more innovative design and construction techniques in the construction of manufactured homes. Specifically it should clarify the definition of "permanent chassis" under the act.

Because the act is unclear, in 1986 HUD reversed a ten-year-old policy and now insists that the two I-beams and crossmembers that serve as a transportation platform during delivery of the home from the factory to the home site must remain attached to all manufactured homes whether or not they are needed for structural support on site.

Once the manufactured home reaches the home site, this delivery system very often serves no structural purpose whatsoever. In fact, it is a detriment to permanent placement of many manufactured homes because it impedes installation over basements, adds unnecessary cost and discourages floor design evolution and multilevel development. Further, in some cases the removable platform could be reused in order to reduce costs to the homebuyer. Requiring its permanent attachment constitutes a dreadful waste of financial and natural resources.

A revision in the statutory definition of a manufactured home to specify that the metal delivery system need not remain with the home unless structural integrity on site requires it and a revision of the HUD Code to provide for coverage of multifamily manufactured housing contruction standards would cure these difficulties and benefit both consumers and industry. Likewise, a broader definition of dwellings covered by the HUD Code—especially with revising the chassis definition—would allow other factory built housing players into this building arena.

Presently, for instance, manufacturers of factory assembled modular housing must build to a patchwork of state and local codes. By eliminating the "chassis" requirement or instituting a broad definition of chassis in the HUD Code, another form of inexpensive, factory-built housing would become available to the public. It would also likely bring additional manufacturers into the market place, thus increasing competition to the benefit of consumers.

This would also negate the need for language currently in H. R. 4. to provide a study of the feasibility of a separate code for modular housing.

Consistent with the concept of federal preemption of certain aspects of the housing industry regulation, the industry supports legislation that would apply the HUD Code to site-built housing in jurisdictions where no site built code exists. This legislation would provide needed safety and habitability standards where none presently are in place and does so by use of a system of standards whose performance has been proven over the last 11 years. If a local jurisdiction wanted other than HUD-Code provisions, it would need only enact a local code. Thus, this legislation would spur localities to take responsibility for their own building codes and in the meantime protect consumer safety and economic welfare.

In order to ensure a more streamlined regulatory system for the development and adoption of a national preemptive building code and enforcement system, Congress should consider revisions to the Administrative Procedures Act to provide for negotiated rulemaking of

HUD standards. This plan was endorsed by the President's Commission on Housing in its 1982 report. Briefly, the proposal would allow the agencies and industry jointly to identify and address the issues, putting before the agency more pertinent information needed to develop practical and cost effective regulations. This process would allow the parties to focus their efforts on the real issues, bringing relevent, not extraneous, data to the regulatory process. Negotiated rulemaking also would compel the early involvement of managers and technicians in the process, increasing the likelihood that pragmatic, workable rules would result. Hand in hand with negotiated rulemaking must go a legislative strengthening of the Freedom of Information Act to protect from disclosure sensitive business information provided to the agencies in the process. The effect of these revisions would be to diminish the adversarial climate which presently exists between agencies and the people and businesses affected by their rules. The diminution of conflict would produce substantial savings to government and industry.

Housing and Community Development Programs

Federal housing assistance is available to communities in a multitude of forms, ranging from direct grants, to mortgage insurance to tax incentives. In each case, a whole host of preconditions must be met by a community in order to be eligible to receive the funds. However, many communities discriminate against various forms of affordable housing, especially manufactured housing, by either restrictive zoning and covenants which relegate all manufactured homes to undesirable industrial sites or prohibit their use altogether. There also might be discriminatory tax treatment or provision of municipal services. For example, many communities eliminate the options for reasonably priced housing by virtue of zoning ordinances which limit single family homes to minimum acreage requirements (of 5 acres). Land costs therefore become prohibitive for moderately priced homes. When these actions are examined, they are seen for what they are: discrimination. Not only discrimination against the manufactured housing producers and their jobbers, but, by extension, their consumers— low- and moderate- income Americans. To attempt to segregate them or eliminate them from a community by making affordable manufactured housing unavailable is reprehensible. To permit this de facto discrimination is unacceptable in our society.

MHI and NMHF urge Congress to tackle this problem with a two-pronged approach. First, Congress should provide communities with strong incentives to develop affordable housing. For example, a community might have increased access to mortgage insurance programs, block grant funds or favorable tax treatment, in exchange for an aggressive affordable housing development program. Congress should include in the statutory criteria for evaluating a community's eligibility for such programs an evaluation of the community's use of affordable housing. In short, equitable treatment would allow program participation. Of course, the second prong is that in the event a community discriminates against affordable housing, its eligibility to participate in these federal housing assistance programs would disappear.

Similarly, federal assistance through HUD is presently available to rehabilitate rental housing. These HUD funds not only assist in the rehabilitation of the units themselves, but help provide assistance for the displaced tenants which is attendant to the rehabilitation process. Many old rental mobile home parks are in desperate need of rehabilitation. However, because of the definitional language of the statute, these funds cannot be used to rehabilitate them. MHI supports legislative initiatives that would enable mobile home parks to participate in the HUD rental rehabilitation program.

Flood Insurance Programs

The industry is greatly concerned about the potential displacement of over 300,000 low and moderate income families currently residing in existing manufactured home communities. Flood insurance regulation changes promulgated by the Federal Emergency Management Agency in 1986, will in effect close thousands of existing manufactured home communities.

With passage of the Supplemental Appropriations Act of 1987, Congress has effectively barred FEMA from enforcing these regulations until September 30, 1988. While the industry is appreciative of Congress' expedient action, we continue to have deep concerns about the ultimate resolution of this issue.

We support FEMA's goal to encourage effective flood plan management, however, the goals must be counter-balanced with concerns for displacing low and moderate income families currently residing in manufactured homes in flood plains. Congress should indefinitely delay implementation of the new FEMA regulations and provide funding for additional research on the related issues. Research funding should authorize demonstration projects where various alternatives could be developed and tested.

Public Housing Programs

Hand in hand with rehabilitation programs for low- and moderate- income manufactured housing are public housing programs. The most economic expediture of scarce public housing funds would be to purchase manufactured housing. Funds from these programs cannot presently be used to purchase manufactured housing. To remedy this problem and ease the strain on our public housing programs, MHI and NMHF urge that statutory changes be made so that public housing program funds can be used to purchase manufactured housing and develop projects involving manufactured housing.

The Congress should seriously look for ways to encourage public housing developments such as vantage Glen in King County, Washington. With diminishing federal subsidies for public housing, the King County Public Housing Authority has the answer for providing low-income housing in a pleasant, accessible and safe environment. The project for senior citizens, uses manufactured housing in their traditionally sited manner, where the home is owned and the site is rented from the housing authority.

The King County Housing Authority made use of several resources in developing the 168-unit manufactured home community. First, it financed the purchase of the site with a community development block grant, which averaged $3,500 per unit. Park construction and development, which ran to nearly $10,000 a unit, was financed with tax exempt bond anticipation notes. The housing authority worked out an arrangement with a local bank to provide attractive financing of the homes. Residents pay from between $100 to $300 per month less than the cost of a traditional high-rise project while enjoying the attractiveness and spaciousness of a single-family home community. In King County, public subsidizes were reduced by at least 50 percent over the cost of a nationally subsidized high rise construction project.

While not appropriate for all areas where public housing is needed, the Vantage Glen project can be duplicated by the public sector or private nonprofits, and costs of public subsidies can be substantially reduced.

Public housing would also be well served by revision of the permanent chassis definition in the federal statute (see above) because it would greatly facilitate multiunit housing projects rather than only single-family dwellings. The creation of multiunit, multilevel public housing projects from manufactured homes would produce tremendous savings because real estate costs would be kept to a minimum. By redefining the HUD code, to include both single- and multifamily construction, manufactured homes could be assembled into multiunit, multilevel housing projects. The savings in real estate costs alone would help spread public housing dollars to a larger number of projects.

Housing Finance and Tax Issues

The key to the future in any modern industry is research and development. Without R&D, there is no opportunity for improvement of product or manufacturing techniques or for reducing costs. Money invested in R&D is money spent in the public interest. MHI supports, therefore, amendments to the Internal Revenue Code and any related federal income tax regulations to provide for a deduction or credit for funds expended by manufacturers or service providers in their R&D activities.

Within the field of finance is the issue of the Mortgage Credit Certificates (MCCs) created by the Tax Reform Act of 1984. The MCCs are issued to home purchasers by a state or local housing finance agency as an alternative to issuing tax exempt mortgage revenue bonds. The purchaser then uses the MCCs to produce a dollar-for-dollar tax reduction in an amount equal to the amount of the credit. This program makes home buying a real possibility for many low- and moderate- income purchasers.

There is a sunset provision to the MCCs program of December 31, 1988. MHI and NMHF urge the Congress either to lift or extend this sunset date to continue this valuable program.

One of the most troubling problems facing manufactured housing is its continued treatment as personal property. Unlike site-built housing, manufactured housing is often thought of as an item of personal property stuck on real property. Often times, two different entities own the personal and the real properties. Because of this peculiarity of the method by which manufactured homes and their sites are owned, they do not fit into the formula established by Treasury Department regulations defining homes that are eligible for mortgage revenue bond financing.

In short, a state or local governmental authority cannot issue mortgage revenue bonds, whose income receives preferential tax treatment, on manufactured homes unless they are owned with the real estate on which they are sited and are treated as a real estate entity. Therefore, MHI and NMHF support legislative action to revise the Internal Revenue Code and instruct the Treasury Department to amend its regulations so that manufactured homes not owned in conjunction with the real estate on which they are sited will still be eligible for mortgage revenue bond financing.

Continuing in the area of tax reform, in the Tax Reform Act of 1986, the recovery period for residential rental property was increased to 27-1/2 years and accelerated depreciation was replaced with straight-line depreciation. In order to qualify the land, improvements and residence must be owned by the same entity, here the developer. MHI and NMHF support a lifting of this ownership requirement because in a manufactured home rental community the land, improvements and residence are seldom owned by the same entity. Presently, many manufactured home communities are not classified as residential property (which would allow them a 27-1/2-year straight-line depreciation schedule). Rather, they are classified as nonresidential property compelling a 31-1/2 year straight-line depreciation schedule. In this connection, the industry supports a redefinition of residential rental property to include all manufactured home communities not merely those in which the manufactured home is permanently affixed to the real estate and both home and land are financied as real estate and owned by the landlord. This simply is a logical and straight-forward amendment which recognizes the reality that these communities are residential properties occupied prusuant to a lease. This reclassification would also allow developers of manufactured housing-based residential rental projects to avail themselves of the incentives under the 1986 act providing for low-income housing credits. These credits on new construction or rehabilitation of low-income rental housing would go a long way when applied to less expensive manufactured housing than to more expensive site-built housing.

The redefinition of manufactured home rental communities as residential rental property would, obviously, apply to low-income residential rental property. But, the elimination of the accelerated depreciation system in the 1986 act has severely hampered the development or redevelopment of manufactured home rental communities for low-income residents. MHI and NMHF urge the specific limited reinstatement of accelerated depreciation over a ten-year period for manufactured home communities for low-income residents. Manufactured housing communities can provide one of the least-expensive means of providing low-income housing, and the quicker this housing is available, the better for the public at large. These tax reform items can provide sufficient inducement for the manufactured housing industry and developers to systematically respond to the acute shortage of low-income housing.

Finally, within the area of finance are the matters relating to Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) authority to purchase and sell personal property loans used to finance the purchase of manufactured housing. The agencies could do this just as they purchase and sell mortgages for site-built housing. However, for reasons best known to themselves, neither agency chooses to exercise this authority. Therefore, the industry supports a Congressional direction to these agencies either in the form of a joint resolution or other appropriate vehicle to begin to use their authority to purchase personal property loans by a date certain in the near future.

We feel that the absence of conventional secondary market programs as mentioned above, is at least a part of the reason that a loan to purchase a manufactured home typically carries an interest rate that is 2-3 percent higher than interest rates on real estate mortgages. Having programs operated by FNMA and FHLMC for manufactured housing personal property loans could help close that gap in interest rates and help housing affordability greatly.

Housing Insurance Issues

Within the field of insurance, there are several issues of importance to the manufactured housing industry.

First, the present system of Veterans Administration (VA) loans and loans under Federal Housing Administration's (FHA) Title I of the National Housing Act should be preserved. Likewise, the present system of VA and FHA insurance of personal property loans on the purchase of manufactured homes should be preserved. The present system of the FHA insuring manufactured housing loans only as a portfolio must be broadened to encourage the insuring on a loan-by-loan basis. Related to the portfolio loan policy is the FHA's practice under the National Housing Act to issue loan insurance that covers only 10-percent of the portfolio, less the amount of any claims made. This coverage is automatically reduced 10 percent each year, even if there are no claims. MHI and the NMHF support an elimination of the 10 percent coverage limit by amending the National Housing Act. And MHI and NMHF urge Congress to prohibit HUD's automatic annual reduction in insurance coverage.

Second, the availability of mortgage insurance for condominium-style manufactured home developments needs to be expanded if more low- and moderate- income condominium manufactured home developments are to be built. Presently, section 234 of the National Housing Act limits mortgage insurance available to new or rehabititable condominium developments to those that are multiunit, multifamily developments. This reflects the nature of condominium development in the early 1960's when the National Housing Act became law. At that time, most, if not all, condominiums were multistory, multiunit buildings, often converted apartment houses, although new construction was beginning to be done. Through that historical quirk, the National Housing Act's language is keyed to those sorts of condominiums. Since that time, condominium-style ownership has been applied to all sorts of dwellings including detached homes or townhouses where there is a fee ownership of both the lot and the home, and common ownership of other areas. Condominium ownership plans have also been applied to manufactured home communities in which the homes and lots are sold as a package, and to communities in which the home sites are organized under a condominium regime and the resident purchases and locates a manufactured home as a seperate function. Unfortunately, the provisions of section 234 have not kept pace with developments in the housing industry.

Moreover, the office of the general counsel at HUD issued a legal opinion in 1979 explicitly concluding that the agency had no legal authority to insure developments of manufactured housing pursuant to section 234. Therefore, the industry supports legislation that would specifically include manufactured housing developments owned under a condominium regime as eligible condominiums for the purpose of having their mortgages insured under section 234. As an alternative, MHI and NMHF suggest legislation that would permit mortgage insurance under section 234 for condominium developments other than multiunit high-rise-type structures.

In addition, MHI and NMHF support revisions to section 207 of the National Housing Act that would revitalize and update that insurance program to make it suitable for current development or rehabilitation of manufactured home rental communities. For example, communities financed through the section 207 program cannot restrict their rental of a home site to residents who have purchased or rented a manufactured home from a specific dealer or manufacturer. This restriction is ultimately more costly to both residents and the government because it discourages both joint venturing by retailers or manufacturers and discourages developers selling shares in a cooperative community (one in which the homes and land are developed together and owned by the community). Similarly, in cooperative communities purchasers of manufactured homes with Title I mortgage insurance must separately finance purchase of their share in the cooperative, even though the cooperative is financed through the section 207 program. MHI and NMHF support bringing consistency to these cases and the others like them in an effort to revitalize the section 207 program.

Rural Housing

We believe that manufactured housing can make one of its greatest contributions by providing affordable housing to rural citizens. The Farmers Home Administration (FmHA) implemented a Section 502 manufactured housing program on November 18, 1986. It is too early to predict the programs ultimate success, however, we believe the program should be revised to reduce cumbersome and unneccessary requirements.

FmHA has the Congressional authority to implement a program under Section 515 (Rental Rural Housing) but has not done so. We believe that a Section 515 program for manufactured housing would be tremendously successful because the program procedures would be more broadly accepted by retailers and developers in the manufactured housing industry.

In conclusion, the Manufactued Housing Institute and the National Manufactured Housing Federation support the efforts of the Congress to examine and develop an effective national housing policy. With the ever-expanding need for housing in the nation and ever-rising costs, scarce dollars must be carefully spent by both the public and government to ensure our citizens safe, decent and affordable housing. Through thoughtful reform of the statutory framework applied to manufactured housing and through a consistent and uniform application of the law, this goal can be achieved.

Thank you very much for inviting the Manufactured Housing Institute to participate in these hearings.

A REPORT ON NATIONAL HOUSING POLICY

October 5, 1987

Mortgage Bankers Association
of America

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I. Housing as a National Priority

A. THE ISSUE

Where will we live — we Americans — in the decade ahead and in the next century? Our parents, our children, and our children's children all face rising housing costs and many face diminished housing choices. Housing remains one of the basic human needs, yet until recently it had fallen off the national agenda.

Whether aspiring to be homeowners or renters, whether in vibrant urban growth areas or in older towns or in the rural countryside, for the first time in our history young people entering the housing market typically cannot achieve housing equal to what their parents could afford.

Homeownership costs have outstripped the growth of typical household incomes. Rents are absorbing ever-higher shares of poor families' incomes. This is happening at the same time that Federal domestic policy attention has shifted to other priorities. Housing as a vital national issue has been crowded out by the problems of energy, agriculture, manufacturing, health costs, and general welfare.

For nearly a decade, the Federal commitment to housing has been on the decline. The housing budget has been slashed by two-thirds, more than any other sector of the national budget. The major Federal housing assistance programs of the 1960s and 1970s either have been eliminated or are being phased out. Public housing is undermaintained and is wasting away. The stock of federally assisted units faces a long-term decline as existing subsidy contracts expire.

As an industry, a group of people, involved full time in financing housing as well as places of work, shopping, and recreation, we at the Mortgage Bankers Association of America welcome the opportunity to share our research and views on what national housing policy should be. As we look toward the coming session of Congress, to the next national elections, and to the balance of this decade, we see that this is the time to weave housing back into the fabric of national policy. The way we house ourselves is too important a part of what we are — how we view ourselves as a people — to be neglected any longer.

This report is an expression by the Mortgage Bankers Association of America of where we are and where we believe we should be heading in national housing policy. We have chosen to focus not just on the elements of finance with which we are most familiar, but on a full range of issues that we believe we are competent to address. The fabric of housing issues is an intricate tapestry that can only be comprehended when looked at as a whole.

B. FROM VISION TO REALITY – THE FRAMEWORK OF THIS REPORT

Senators Cranston and D'Amato –

– you ask us to propose "building blocks" for a major new housing bill.

We will try to do more. Before the building blocks should come a design. And before that, a vision – in the mind of an architect or of many architects. Housing policy needs to start with a vision of what it is we want to accomplish, and for whom.

That vision needs to have foundations in reality. A starting point of this report is to depict a clear sense of what our shelter conditions and their shortcomings are. This report looks in detail at the qualitative and quantitative dimensions of housing needs.

This assessment of housing needs in turn is set in a larger landscape of demographic and economic forces. Fundamental to a successful housing policy is a realistic understanding of the directions imposed by emerging demographic, geographic, and other trends. Public policy works best when it uses or reinforces the underlying wishes and powerful natural trends at work among people throughout the economy. We examine demographic, geographic, and other such forces in separate chapters of this report.

Part of the environment within which housing policy will be shaped are the constraints imposed by limited resources and by competing priorities. Housing is a major user of labor, building materials, and land. We face serious choices in both our private and our public activities between building new housing and new communities or preserving the structures and neighborhoods already in place.

Housing is also the single largest user of credit in the nation's financial network. Dependence on long term mortgage financing makes housing especially vulnerable to cycles and volatility in interest rates and to the effects of Federal monetary and fiscal policies. These realities, too, are examined in this report.

Once the economic and demographic landscape is in focus, and the dimensions of housing needs are in view, we get on with the business of articulating the building blocks of housing policy. Each of these building blocks rests on one of three concepts, which are central to the whole structure of this report.

1. First, **homeownership, while not for everyone, is a cornerstone of the American way of life.** It provides opportunity for independence, self-expression, and a sense of fulfillment. Homeownership gets people involved in their communities, and with their government. It builds good citizens. Homeownership, therefore, should be a goal of Federal housing policy. It can and should be pursued primarily through the updating and refinement of the mortgage insurance and secondary market programs already in place and working.

2. Second, **government has an obligation to help people who cannot help themselves.** This should be done primarily through rental housing assistance programs. To be cost-effective, and to preserve existing communities and the existing housing stock, where market conditions allow, it should rely first on rental assistance in occupying existing housing. In the many markets where this is not feasible, a program is proposed for new construction and substantial rehabilitation that combines the best features of past and present programs. State and local governments should have a major role in deciding on suitable delivery systems and management of the housing assistance process.

3. Third, **private markets should be allowed to function competitively, and efficiently,** so as to keep housing and mortgage credit costs to a minimum. Also, numerous opportunities exist for streamlining and reducing the costs related to buying a home. Recommendations are made for removing unnecessary obstacles to the free flow of credit and other resources, and for reducing costs.

Housing policy also needs commitment and follow-through from people who care. New laws must be transformed into regulations and procedures, and into organizational structures and managements to carry them out. We need people to run those organizations who are committed to their programs. We need leadership with the energy to initiate and sustain action, or, to put it another way, to translate intentions into reality and sustain it.

This report presents MBA's view of the vision, foundations, and the "building blocks" for a new national housing policy. To respond to your request, each major section of the report includes specific suggestions for public policy action. These recommendations are summarized in the concluding chapter of the report.

II. The Economic Framework For Housing Policy

A. OVERVIEW

The development of a new framework for national housing policy begins with a broad overview of housing and the national economy. Improvement in the quantity and quality of housing for American families must continue to be a major objective of economic as well as social policy. Methods to achieve that objective have to recognize other important national goals, limitations on available resources, and progress made in the past to provide more satisfactory living quarters for U.S. residents.

The period since the end of World War II has been one of substantial progress in increasing the quantity, and improving the quality, of housing for the average American family. The stock of housing has grown faster than real gross national product (GNP), with the result that the quantity of housing services enjoyed by American families has risen as a share of real output (Exhibit II-1). In constant dollar terms, personal consumption of housing services was just over 6 percent of GNP in 1946; by the middle years of the 1970s, the figure had risen to around 9.5 to 10 percent, and has generally stayed in that range during the past decade.

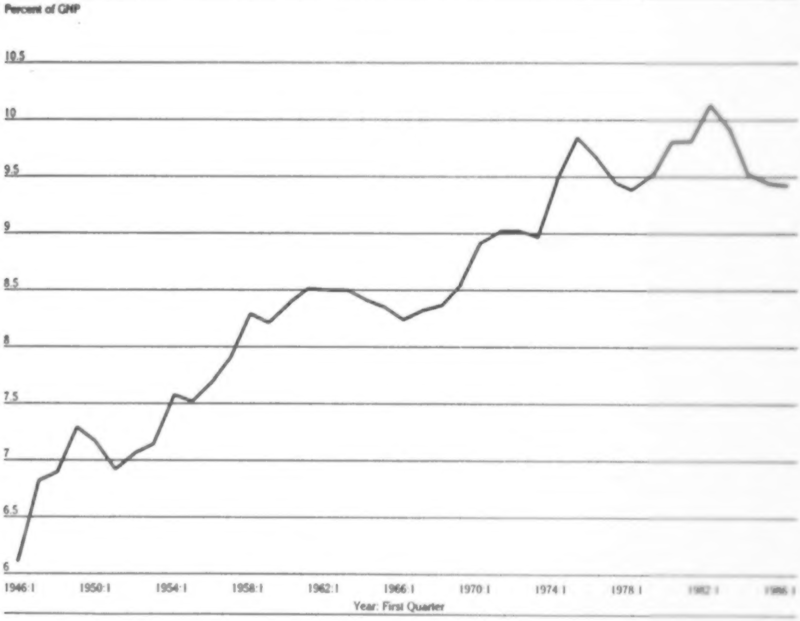
Aggregate measures of housing quality are not readily available. One rough aggregate indicator comes from statistics published by the U.S. Department of Commerce on prices of new homes of the kind sold during a particular year. These statistics indicate that improvements in the amenities provided in newly constructed homes account for over one-third of the increase in new home prices from 1963 to 1983.

The largest part of the postwar increase in personal consumption of housing services relative to GNP, shown in Exhibit II-1, reflects the services of owner-occupied homes. Until relatively recently, families increasingly realized the dream of owning their own home. The homeownership rate (the percentage of households owning their own home) grew steadily over the first three decades of the post-World War II period, to 65.6 percent in 1980 (Exhibit II-2). A strong economy, relatively low mortgage interest rates, and a solid Federal government commitment to improve the quantity and quality of housing were all contributing factors to this increase.

More recently, cracks have begun to appear in this wall of housing progress. For example, the share of housing services in GNP has declined in recent years, even though the share attributable to tenant nonfarm space rent was gradually increasing, as indicated in Exhibit II-3. The decline stemmed in part from a reduction in the

Exhibit II-1

Housing Services



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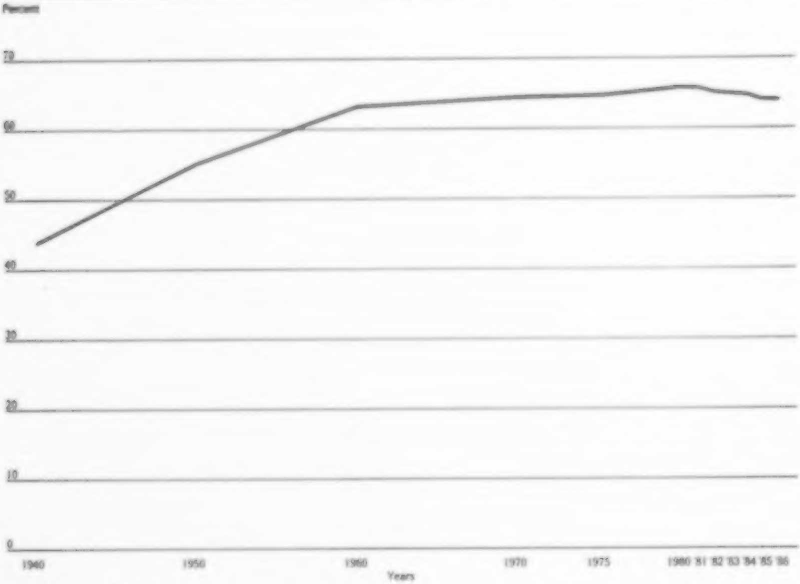
Homeownership Rate
Percentage of Households Owning Their Home



Source: U.S. Department of Commerce, Bureau of the Census

Exhibit II-3

Personal Consumption of Housing Services Percent of GNP

Constant Dollars

	Total	Owner-Occupied Nonfarm Space Rent	Tenant-Occupied Nonfarm Space Rent	All Other
1980	9.81	6.65	2.31	.85
1981	9.82	6.66	2.36	.80
1982	10.14	6.89	2.46	.79
1983	9.92	6.72	2.43	.77
1984	9.51	6.46	2.34	.71
1985	9.45	6.39	2.38	.68
1986	9.43	6.35	2.41	.67

Source: U.S. Department of Commerce, Bureau of the Census number of farm families and the abandonment of a substantial number of farm homes. However, it also stemmed from a reduction in the share of GNP attributable to owner-occupied nonfarm space rent. This may be a reflection of the decline in the homeownership rate from 65.6 percent in 1980 to 63.8 percent in 1986.

The decline in homeownership since 1980 has been concentrated among younger households (Exhibit II-4). Among households headed by persons 50 years or older, the rate of homeownership has been essentially unchanged over the past six years. In contrast, among households headed by persons less than 35 years of age, homeownership rates have declined quite dramatically. The available evidence indicates that reduced housing affordability is mainly responsible for this decline in homeownership.

B. HOUSING AFFORDABILITY

1. Rental Housing Costs

Measuring the affordability of housing is relatively straightforward for rental housing, because it involves mainly a comparison of the costs of rent and utilities with median family income.

Exhibit II-5 shows percentage changes in residential rent, utilities, and median family income for selected periods since 1970. During the 1970s, average annual growth of median family income exceeded by a substantial margin the increase in residential rent, but fell well short of the increase in the cost of utilities—which were driven up by dramatically higher world oil prices. Since 1980, the rise in median family income has slightly exceeded the rise in utility costs, but has fallen short of the increase in residential rents. Over the entire 16-year period, however, residential rents rose less than median family income and less than the rise in overall consumer prices.

For families headed by persons 35 years and over, average yearly increases in median family income from 1970 to 1986 were well-above the average increase in rent, but generally below the increase in utility costs. For younger families, the figures are much grimmer. For those headed by persons in the 15–25 age group, the average yearly increase in median family income from 1970 to 1986 fell below the rise in rents and far below the increase in utility costs. The income shortfall was particularly acute for younger families from 1980 to 1986.

To a large degree, rental housing problems can be traced to problems of inadequate income. Rents have continued to rise as a percentage of real GNP, and in recent years apartment building construction has been so substantial relative to

Exhibit 6-4

Homeownership Rate by Age of Head of Household

Age of Household Head	1981	1982	1983	1984	1985	1986	Percent Change 1981-1986
Under 25	20.7	19.3	18.8	17.9	17.2	17.2	−16.9
25-29	41.7	38.6	38.3	38.6	37.7	36.7	−12.0
30-34	59.3	57.1	55.4	54.8	54.0	53.6	−9.6
35-39	68.9	67.6	66.5	66.1	65.4	64.8	−6.0
40-44	73.7	73.0	72.8	72.3	71.4	70.5	−4.3
45-49	76.2	76.0	75.2	74.6	74.3	74.1	−2.8
50-54	78.3	78.8	78.8	78.4	77.5	78.1	−0.3
55-59	80.0	80.0	80.1	80.1	79.2	80.0	0.0
60-64	80.0	80.1	79.7	79.9	79.9	79.8	−0.2
65 and over	73.9	74.4	75.0	75.1	74.8	75.0	1.5
All Households	65.4	64.8	64.6	64.5	63.9	63.8	−2.4

Source: U.S. Department of Commerce, U.S. Bureau of the Census

Exhibit 6-5

Annual Rates of Change in Residential Rent, Utilities, and Median Family Income

Percent

	1970-75	1975-80	1980-86	1970-86
Residential Rent	4.5	6.9	6.5	6.0
Utilities	9.3	10.7	5.5	8.3
Median Family Income, Total, All Families	6.8	8.9	5.8	7.1
By Age of Family Head				
15-24	4.4	9.5	1.8	4.9
25-34	6.7	8.4	4.9	6.4
35-44	6.9	9.2	5.8	7.2
45-54	7.7	9.2	6.1	7.6
55-64	7.4	9.6	5.4	7.3
65 and over	9.8	9.8	7.9	9.1

Source: U.S. Department of Labor, Bureau of Labor Statistics and U.S. Department of Commerce, Bureau of the Census demand for rental space that the vacancy rate has risen considerably. Moreover, residential rents since 1970 have risen less than overall consumer prices, and less than median family income. Such aggregate facts are, of course, small comfort to families and nonrelated individuals whose income levels are so low that they cannot afford decent rental housing. But they are facts that should be kept in mind in addressing national rental housing affordability problems.

2. Costs of Homeownership

The costs of owning a home, as opposed to renting, may be measured in alternative ways – before or after taxes, focusing just on the monthly payment of principal and interest (P&I) or including other homeowner costs, measuring cash costs only or including other opportunity costs as well. None of the available indexes of ownership affordability deals with the various elements of homeowners' costs in a fully satisfactory way. But they all indicate that homeownership is less affordable now than in most postwar years prior to 1977.

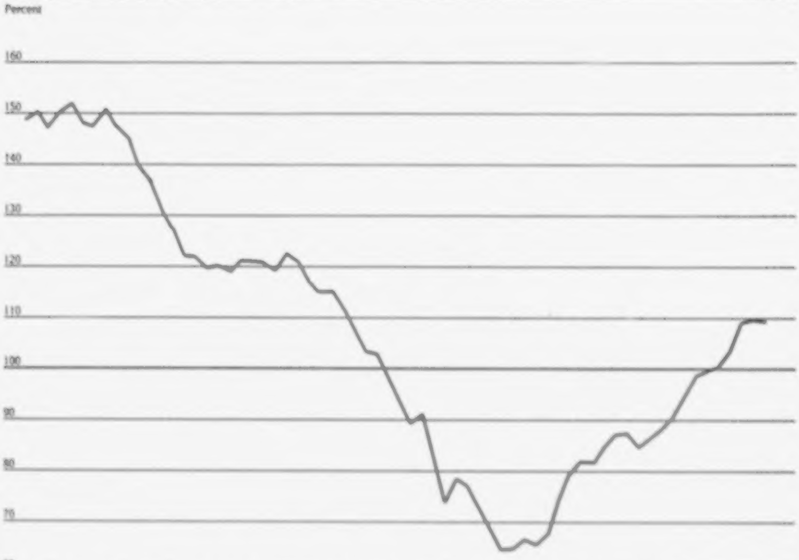
The most well-known index of housing affordability is published by the National Association of Realtors (NAR). This index focuses on the principal cash costs faced by a homebuyer – the monthly payment of interest and principal. Other cash costs such as property taxes, utilities, insurance, and maintenance and repairs are not explicitly included. Moreover, the interest cost is treated on a pre-tax basis. While these simplifying assumptions are a limitation, it is widely recognized that variations in mortgage interest rates and home prices are the principal sources of change in the cash costs of homeownership.

In the NAR index, monthly payments of interest and principal are estimated based on prevailing mortgage interest rates, the median price of existing single-family homes sold, and an assumed 20 percent downpayment. The amount of income necessary to qualify for such a loan is calculated based on underwriting guidelines established by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The magnitude of income needed to qualify for a loan relative to median family income determines the affordability of a home.

The NAR index, shown in Exhibit II-6, indicates that homeownership affordability in the first half of 1987 regained levels not seen in almost a decade. The NAR index also indicates that, from a cash costs standpoint, homeownership is considerably less affordable today than it was during the early years of the 1970s.

Exhibit II-7 seeks to identify some of the underlying reasons for the deterioration in the affordability of owning a home in the 1970s, and the more recent

NAR: Affordability Index 1971 to 1987 Q2



Source: National Association of Realtors

Exhibit II-7

Percent Change, Annual Rate

	1970-81	1981-86
Median Family Income	7.7	5.0
Monthly Payment of Interest and Principal	15.4	−3.2
Home Price	10.1	3.9
Mortgage Rate	5.5	−7.5
Consumer Prices	8.0	3.8
Average Gross Hourly Earnings[1]	7.4	3.8
Average Gross Weekly Earnings[1]	7.1	3.6

[1] Private Nonfarm Economy

Source: U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Labor, Bureau of Labor Statistics improvement, reflected in the NAR index. Shown there are annual rates of change in median family income and the monthly P&I payment from 1970 to 1981, and from 1981 to 1986, along with annual rates of change in consumer prices and wages over the same two periods.

The message in these statistics is rather simple. The 1970s were years of high inflation. Real incomes showed little increase, because productivity growth was low and rising prices of foreign oil were draining income from the U.S. Inflation led to a dramatic increase in mortgage interest rates, and home prices rose sharply as well. The cash costs of housing increased much faster than family income. Since 1981, inflation has come down, mortgage interest rates have fallen, and home prices have risen more slowly. The cash costs of housing have actually declined, while median family income has advanced at a pace somewhat above the rate of inflation. Changes in the rate of inflation are clearly the principal source of changes in the cash costs of homeownership and in this measure of affordability.

Exhibit II-8 shows estimates by the MIT/Harvard Joint Center for Housing Studies of the relation between cash costs and total costs of homeownership, each shown as a percentage of median household income. During the 1970s, rates of home price appreciation were high compared with the level of mortgage interest rates. During those years, the total costs of homeownership were low relative to cash costs. More recently, rates of home price appreciation have been low relative to the level of mortgage interest rates, so that the total costs of homeownership have risen sharply relative to the cash costs. In 1986, total costs of homeownership as a percent of median income were much higher, relative to the years of the 1970s, than was the case for cash costs.

This difference between cash costs and total costs of homeownership corresponds roughly to the difference between nominal (actual) and real (after adjustment for inflation) mortgage interest rates (Exhibit II-9). From 1970 through 1978, increasing nominal mortgage interest rates were accompanied by an even faster rise of home prices. Consequently, real mortgage interest rates declined and were negative from the mid 1970s until 1981. Real mortgage interest rates rose to dramatic heights during the first half of the 1980s before turning down. Today's level of real mortgage interest rates is still very high by historical standards.

The two measures of homeownership costs are both important because they have relevance for potential homebuyers in different financial situations. To an individual whose annual income is barely enough to meet the qualifying income of a typical mortgage lender, the cash costs of homeownership are likely to be more critical. An increase in the cash costs may prohibit such an individual from buying a house, even though future appreciation in the value of that house might make it an attractive

Exhibit II-8

Housing Costs as a Percentage of Median Household Income

Recent Purchasers

	Total Costs[a]	After-tax Cash Costs[b]
1970	11.6	21.9
1971	15.4	22.9
1972	7.0	23.5
1973	11.0	26.6
1974	11.0	28.5
1975	13.0	29.9
1976	9.2	30.7
1977	8.1	31.4
1978	7.1	34.8
1979	10.6	35.7
1980	24.0	36.9
1981	35.5	35.7
1982	41.6	37.4
1983	32.2	31.8
1984	33.7	32.0
1985	30.2	31.6
1986	27.8	30.4

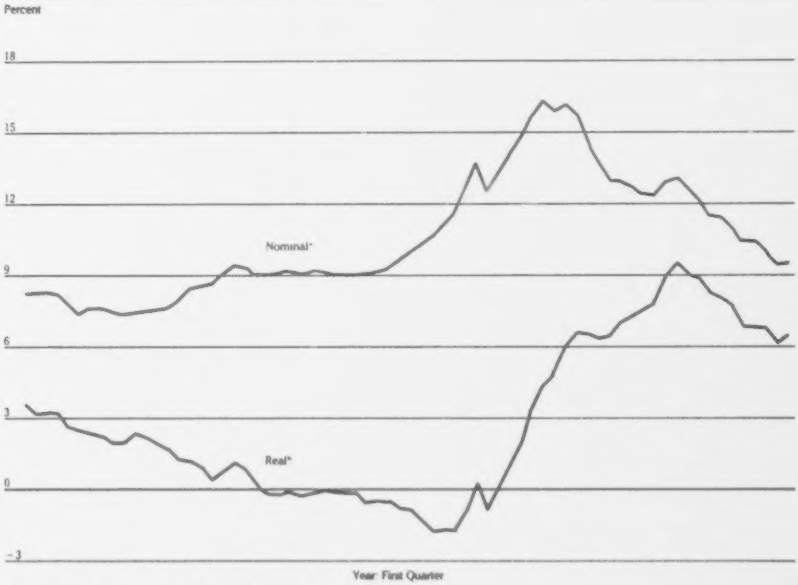
[a] Total costs equal after tax cash plus the opportunity cost of the homeowners equity minus the expected annual appreciation of the home

[b] After-tax cash costs equal the sum of after tax mortgage payments, after tax property tax payments, expenses for utilities, maintenance and repairs, and insurance and transaction costs

Source: 1970 to 1985, MIT/Harvard Joint Center for Housing Studies. 1986, estimate by MBA

Exhibit II-9

Nominal and Real Mortgage Rates
1970 to 1987 Q2



a—Effective Mortgage Rate on Conventional Loans Closed. Source: Federal Home Loan Bank Board
b—Nominal Mortgage Rate Less 3 Year Moving Average of the annual percent change in Average Constant Quality Home Price. Source: Mortgage Bankers Association of America
Note: Average Constant Quality New Home Price obtained from the Bureau of the Census

investment. For a person whose current income is well above qualifying levels, the total costs of homeownership may be the more relevant measure. High total costs of homeownership may encourage such an individual to meet his or her needs for shelter by renting rather than purchasing, or by acquiring a smaller home.

Both concepts of costs and affordability help to explain why homeownership rates have declined since 1980. High cash costs early in the 1980s kept many younger, first-time, homebuyers out of the market for several years. At the same time, the continued relatively high levels of real mortgage interest rates and total homeownership costs help to explain why single-family housing starts and sales in the past two years have remained below the levels of the late 1970s, when nominal mortgage interest rates were close to those prevailing today.

Exhibit II-10 shows indexes of cash affordability by age of family head. Between 1970 and 1986, cash affordability declined by nearly one-half for families in the 15 to 24 age group, one-third for those in the 25 to 34 age group, and about one-fourth for older families.

For younger families, families in lower-income brackets, and first-time homebuyers, high cash costs are not the only obstacle to homeownership. Often, the principal hurdle that must be surmounted is the size of the downpayment. To illustrate this point, Exhibit II-11 shows what a 10 percent downpayment on an average-priced home of constant quality amounts to as a percent of median family income by age of family head. For families in the 15 to 24 age group, the figure rose from 41 percent in 1970 to 62 percent in 1986; for those in the 25 to 34 age group, the increase was from 29 to 35 percent. For older age groups, the increase was smaller, and it actually declined for families in the 65 and over age bracket.

With regard to homeownership, problems of affordability partly reflect the distribution of income, but there are more general problems as well. The costs of homeownership have risen much faster than median family income over the past 15 to 20 years. The reason is that interest rates today – in both real and nominal terms – are far higher than they were two decades ago. Methods to improve the ability of American families to own their own home are unlikely to be very successful if they do not take account of that fact.

C. OTHER NATIONAL PRIORITIES

These aggregate statistics point to an increasingly serious problem of affordability in recent years, although the nature of the problem differs as between rental housing and owner-occupied homes. Affordability problems in both areas are particularly acute for younger families. Disaggregated statistics shown elsewhere in

Exhibit 8-10

Indexes of Cash Affordability By Age of Family Head

	15-24	25-34	35-44	45-54	55-64	65 and Over
1970	105.1	147.2	170.4	181.0	155.1	147.4
1971	102.0	151.6	175.4	190.4	162.2	151.8
1972	103.6	155.3	182.5	195.6	162.5	154.7
1973	98.3	149.7	175.4	186.7	156.7	147.8
1974	87.3	130.7	154.9	167.2	137.5	130.3
1975	78.8	122.9	143.2	158.1	133.8	123.4
1976	79.4	124.4	146.2	160.1	135.5	125.8
1977	78.1	119.2	142.0	156.9	129.7	120.6
1978	75.3	109.7	129.3	142.8	122.0	111.3
1979	64.3	95.6	113.4	125.3	108.6	97.2
1980	52.4	77.5	93.7	103.5	89.4	79.8
1981	43.1	66.2	81.5	90.0	77.5	68.9
1982	42.3	66.1	81.5	91.1	77.4	69.5
1983	46.9	77.1	98.0	110.3	92.8	83.2
1984	46.5	84.8	105.1	116.3	98.8	89.1
1985	51.6	89.0	111.7	125.4	104.7	94.8
1986	55.6	99.1	125.2	140.7	116.8	106.2
Percent Change 1970 to 1986	−47.1	−32.7	−26.5	−22.3	−25.7	−28.0

Source: Department of Commerce, Bureau of the Census; National Association of Realtors; and Mortgage Bankers Association of America. Indexes are computed by dividing median family income by the NAR measure of qualifying income.

Exhibit 8-11

Ten Percent Downpayment as a Percentage of Median Family Income*

Age of Family Head	1970	1975	1980	1986
15-24	41	49	54	62
25-34	29	31	36	35
35-44	25	27	30	28
45-54	24	24	27	25
55-64	28	29	32	30
65 and over	57	53	58	47
All Families	29	31	35	32

*Downpayment is calculated as 10 percent of the price of a constant quality new home as estimated by the U.S. Department of Commerce, Bureau of the Census.

Source: U.S. Department of Commerce, Bureau of the Census; Mortgage Bankers Association of America.

II-15-16

this report reveal an even starker picture of housing inadequacies for large, and growing, numbers of American households. In considering what should be done about these problems, consideration needs to be given to other important national economic priorities. If more resources are devoted to housing, where should they come from?

It would be widely agreed that the list of urgent national priorities is a long one. Three stand out as major problem areas whose solution impinges directly and indirectly on the ability to increase the amount of resources available for housing. They are: 1) the need to increase productivity growth; 2) reduction in the Federal budget deficit, and 3) reducing the U.S. trade and current account deficits with the rest of the world.

1. Productivity Growth

One of the widely discussed disappointments of recent years is the slowdown of productivity growth in the U.S. economy. Over the first 25 years of the postwar period, productivity in the private nonfarm business economy (output per unit of labor input) increased on average about 2.25 to 2.5 percent per year. Since then, increases have averaged around 1 percent a year, or somewhat less, depending on which years are used as end points for measurement purposes.

The sources of this slowdown in productivity growth are not well understood, nor is there any obvious solution at hand to accelerate the growth of productivity—which is so important to future living standards. It would probably be generally agreed, however, that an indispensable part of a program to improve productivity in the nonfarm business sector would be to increase the rate of net investment in nonresidential fixed capital. As Exhibit II-12 indicates, the ratio of net investment in nonresidential capital to GNP in recent years has been unusually low, barely over 2.5 percent, compared with figures of 3 percent or more during most of the postwar years.

2. Reducing the Federal Budget Deficit

Progress in reducing the Federal budget deficit in fiscal 1987 has been heartening: the deficit this fiscal year will be $60 to $70 billion below the $220 billion figure of fiscal 1986. Substantial further reductions are needed over time to bring Federal outlays and revenues into reasonable balance. It would be difficult to identify any single step that would be of greater long-term benefit to housing than to move toward reducing the Federal deficit, reducing direct Federal borrowing, and reducing real interest rates. Short-term efforts to improve the affordability of housing must keep this long-term linkage between the Federal budget and housing clearly in mind.

Exhibit II-12

Net Investment in Nonresidential Capital

Constant Dollars	Percent of GNP
1946-50	4.08
1951-60	2.97
1961-70	3.67
1971-80	3.26
1981-86	2.60

Source: U.S. Department of Commerce, Bureau of Labor Statistics.

3. Reducing the External Deficit

The U.S. trade and current account deficits with the rest of the world must be reduced substantially, if not eliminated altogether, over the next three to five years to avoid a massive further increase in U.S. debt to the rest of the world. The servicing of this debt reduces real incomes of American citizens, and it is therefore crucial that the rapid rise in U.S. external debt during recent years come to an end.

Closing the gap between imports and exports of goods and services, a process underway in 1987, acts as a stimulant to the U.S. economy. Export-led growth requires more modest increases in domestic aggregate demand if inflationary pressures are to be avoided. Programs to foster greater housing affordability must keep this fact in mind also.

4. Economic Policy to Improve Housing Affordability

The broad-brush treatment of housing and the overall economy presented in this section of the report suggests a few general conclusions about the overall direction of housing policy for the future.

First, our nation needs to avoid a resurgence of inflation that would raise interest rates, increase the price of homes, and reduce housing affordability. The underlying or core inflation rate (the rate of inflation excluding food and energy) is now in the range of 4 percent, well below the rates prevailing in the late 1970s and early 1980s. During the course of the current economic expansion, which is now in its fifth year, the underlying inflation rate has not increased, and that is certainly a noteworthy accomplishment. But there is no reason to be satisfied with 4 percent inflation. We can, and should, aim to do better. A further reduction of inflation would be most beneficial for younger households and first-time homebuyers, because it would reduce nominal interest rates and the cash costs of homeownership, which are particularly critical for this segment of the population.

Controlling inflation is partly the province of monetary policy, but other government policies can affect inflation as well. Federal budgetary policy is one of them. We cannot realistically expect to bring down inflation further unless the Federal budget deficit continues to decline. Equally important in the outlook for inflation is the avoidance of protectionist measures, which would increase prices and interest rates and reduce the affordability of housing.

Second, a concerted effort needs to be made to bring down real interest rates, which are still quite high by historical standards. Perhaps we can never return to the very low real interest levels of the 1970s or the earlier years of the postwar period. During those years, there were substantial blockages of credit flows to various segments of the economy because of usury laws, ceilings on the rates that depository institutions could pay to attract deposits, and other factors. Removing those barriers to credit flows has made money and capital markets function more efficiently, and has opened access to credit to individuals and businesses that would otherwise be unable to borrow. The consequence, however, is that real interest rates now do the lion's share of the rationing of available funds among potential borrowers. They are therefore higher than they would be in a world in which a substantial amount of nonprice credit rationing occurred. Nonetheless, even under present circumstances, real interest rates would be lower if the Federal government reduced its borrowing.

A step that would help lower real interest rates could be to consider tax policies that encourage a higher rate of personal saving. Individual retirement accounts (IRAs), which first became tax deductible in 1982, have been of little help in this endeavor; by and large, most of the funds going into IRAs reflect transfers of financial assets from one form to another, rather than increased saving relative to income.

An alternative approach to increasing national savings could be to consider ways of reducing our heavy reliance on the individual income tax, as a source of revenue, and shift toward some use of a broader based sales tax or value added tax, with appropriate exemptions to avoid regressivity. Direct taxes on consumption would alter substantially the price of consumption relative to saving, and would thus encourage additional saving out of income. This would be a dramatic shift in the structure of Federal taxes and therefore should only be pursued through careful and thorough study. It would be based not just on grounds of improving the affordability of housing, nor need it be. Improving the quantity of saving available for investment would benefit all forms of investment, and it therefore may be justified on much broader grounds.

Consideration also might be given to the possibility of permitting first-time buyers to withdraw funds from IRAs, without tax penalties, to make downpayments on homes purchased. Existing IRAs could be used for that purpose, and persons eligible for IRAs under current tax law could look forward to future withdrawals of funds from their IRA for making a downpayment on their first home.

Such a use of IRAs would not involve the creation of a new tax shelter, but it might involve some loss of revenue to the Treasury. The reason is that some taxpayers eligible for IRAs under current tax law are not taking advantage of that eligibility because all the funds they save are destined for a downpayment on a home. Permitting IRAs to be used for downpayments by first-time homebuyers could enable such taxpayers to accomplish two objectives at once.

III. Demographic and Geographic Forces

A. INTRODUCTION

Among the building blocks of a national housing policy for the remainder of this century and the start of the next are the underlying demographic and geographic trends expected for that period. Demographic trends play a critical role in the determination of the quantity, quality, and location of future demands for housing. Projected growth of the aggregate number of households, which is based upon population growth, the age structure of the population, and the propensity of members of the population to form households, provide a guide to the aggregate number of new housing units needed to maintain an adequate stock of housing. In turn, these household formation decisions are strongly influenced by economic and social factors, particularly the cost of housing. The age of the households, marital status, and income of these new households suggest what type of additional housing will be needed. Finally, migration patterns within the country indicate where this additional housing will likely be located.

B. GROWTH IN THE NUMBER OF HOUSEHOLDS

Since the middle of this century the rate of growth of the population has been slowing and, based on U.S. Bureau of the Census projections, this trend is expected to continue well into the future. Exhibit III-1 shows the U.S. population for 1960–85 and projections out to 2000, along with percentage shares of selected age groups (also depicted in Exhibit III-2). Exhibit III-3 presents the actual and projected percentage changes in population in selected age groups over ten-year intervals from 1950 to 2000. Overall, the population growth rate is clearly decelerating. The compound annual growth rate was 1.7 percent in the 1950s, 1.3 percent in the 1960s, about 1.0 percent from 1970 to 1985, and is expected to decelerate further to about 0.6 percent by the late 1990s. The primary factor behind this slowing growth rate is the decline in the birth rate. In 1960, the birth rate in the U.S. (live births per 1000 population per year) stood at about 24. By the late 1970s, the birth rate had fallen to just below 15. Since then, the rate has increased somewhat, but appears to have stabilized between 15 and 16.

Despite this trend of declining aggregate population growth, the changing age structure of the population has caused the number of persons in the various age groups to increase or decrease precipitously. In particular, the baby boom, a large

Exhibit III-1

U.S. Population by Age

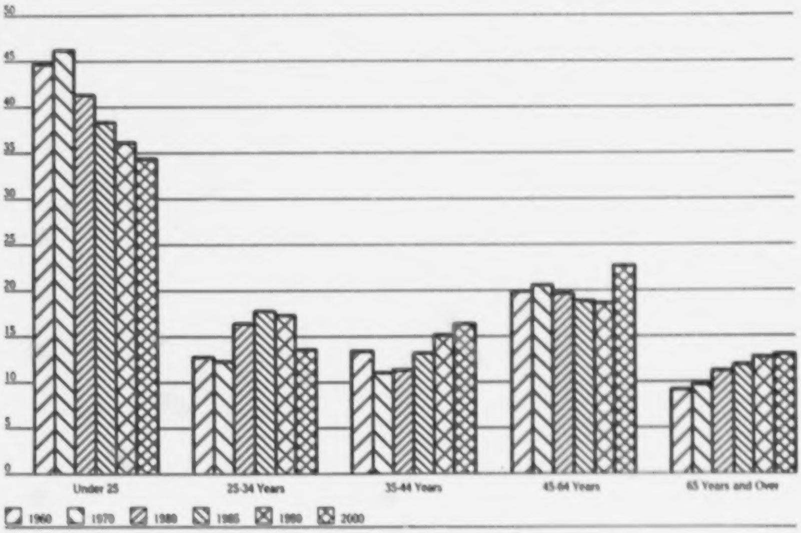
	Total, All Ages		Age Group as a Percent of Total				
Year	Millions	Compound Annual Growth Rate from Preceding Year (percent)	Under 25	25-34	35-44	45-64	65 and over
1960	180.7	1.7	44.6	12.7	13.4	20.0	9.2
1970	205.1	1.3	46.1	12.3	11.3	20.5	9.8
1975	216.0	1.0	44.0	14.6	10.6	20.3	10.5
1980	227.8	1.1	41.3	16.5	11.4	19.6	11.3
1985	239.3	1.0	38.3	17.6	13.3	18.8	11.9
1990	249.7	.9	36.1	17.4	15.1	18.6	12.7
1995	259.6	.8	35.0	15.6	16.2	20.1	13.1
2000	268.0	.6	34.3	13.6	16.3	22.7	13.0

Source: U.S. Bureau of the Census, Current Population Reports, Series P-25, Nos. 311, 519, 917, 952, and 985.

Exhibit III-2

U.S. Population by Age

Age Group as a Percent of Total



[illegible]

Percent Change in Population: Total and by Age Group

	1950 to 1960	1960 to 1970	1970 to 1980	1980 to 1990	1990 to 2000
All Ages	18.7	13.5	11.1	9.6	7.3
Under 16 Years	35.3	5.3	- 10.8	4.6	3.3
16 to 24 Years	9.8	48.9	19.2	- 16.6	- 0.2
25 to 34 Years	- 4.6	10.5	48.6	15.7	- 16.3
35 to 44 Years	11.9	- 4.4	11.7	46.3	15.6
45 to 54 Years	17.9	13.3	- 2.4	11.6	46.1
55 to 64 Years	16.6	19.6	16.5	- 3.3	12.9
65 Years and Over	34.5	20.6	27.8	23.3	10.2

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311, 519, 917, and 988 cohort of individuals born between 1945 and 1964, has moved like a large bubble through the age structure and has had major social and economic impacts.

From 1985 on, the proportion of the population in the 25 to 34 age group is projected to decline as the baby boomers move into the 35 to 44 and 45 to 64 age groups. The population 65 years and older represents a growing share of the total—largely the result of better medical care and increased life expectancies. After 2010, growth in this age group is expected to accelerate as the baby boomers arrive. The large and growing retired population will have many significant economic and social implications, and must be considered carefully when designing programs, housing or otherwise, that serve the elderly. Ultimately, these programs must be financed by those working—a declining share of the population in the future.

The effects of growth in the population and shifts in the age structure of the population on housing demand depend on the propensity of the population to form households. Exhibit III-4 contrasts the growth in households with population growth over the period from 1960 to 2000. Growth in households peaked at about a 2.5 percent compound annual rate in the 1975-80 period, decelerated sharply to about 1.5 percent in the 1980s, and is expected to further decelerate to a little over 1 percent in the 1990s. Over the entire period, the household growth rate exceeded the population growth rate.

Exhibit III-5 presents actual and projected average annual increases in the number of households in total and in selected age groups for five-year intervals from 1970 through 2000. From 1970 to 1975 an average of 1.5 million new households were established each year, while from 1975 to 1980 the average annual increase was nearly 2.0 million. The bulk of these increases occurred among the baby boom age groups and the elderly.

From 1980 to 1985, unfavorable economic conditions, such as relatively high unemployment and high housing costs, reduced the average annual increase in the number of households to 1.2 million.

It is generally recognized that 1980 was a major turning point from increasing to decreasing household formations. The fastest growing age group during the decade of the 1980s is 35 to 44 years, which in 1980 had a headship rate just 1.6 percentage points higher than the 30 to 34 age group. In the decade of the 1990s the fastest growing age group will be 45 to 54 years, which in 1980 had a headship rate just 0.7 percentage points above that of the 35 to 44 age group.

In addition to the age structure of the population, other factors are also likely to promote a slower rate of household formation. One of the most important

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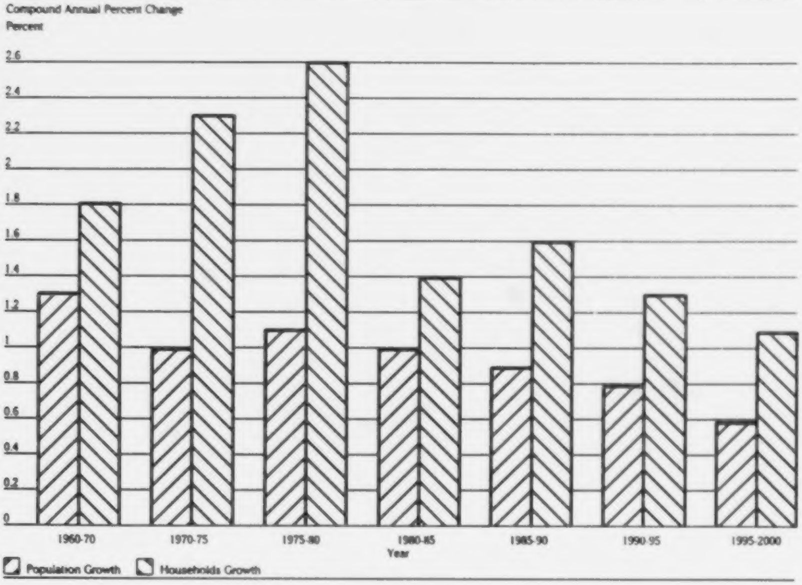
Growth in Population and Households



[illegible]

Average Annual Increase In Number of Households*

Thousands

		Age of Head of Household					
	Total, All Ages	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 and Over
1970 to 1975	1,540	300	640	20	100	100	380
1975 to 1980	1,940	140	720	420	− 40	240	460
1980 to 1985	1,200	−225	300	700	− 5	110	320
1985 to 1990	1,480	−160	230	750	380	−150	450
1990 to 1995	1,210	− 70	−250	530	720	− 20	300
1995 to 2005	1,120	30	−390	290	710	330	150

*All numbers have been rounded.

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 986, Projections of the Number of Households and Families: 1986 to 2000. U.S. Government Printing Office, Washington, D.C., 1986. Projections of Number of Households Based on Series B.

is housing affordability, as discussed elsewhere. With respect to marriage and divorce, there is evidence that as the baby boom generation passes from young adulthood to middle age, a period in which marriage is more prevalent and divorce less prevalent, the divorce rate is declining while the marriage rate is rising.

The combined effect of these economic and demographic influences is that the annual increase in the number of households is expected to average about 1.5 million during the period from 1985 to 1990. From 1990 to 1995 this figure is expected to decline to about 1.2 million. As shown in Exhibit III-6, this slowdown in the rate of household formations implies a decline in the number of new housing units that need to be constructed. During the period from 1996 to 2000 an estimated 1.5 million housing units per year will need to be constructed to keep pace with demand, nearly 500,000 units less than during the period from 1970 to 1985.

C. THE TYPES OF NEW HOUSEHOLDS

Exhibit III-7 (and Exhibit III-8) show that, while the annual increase in the number of households is expected to decline in the future, there is also evidence that there will be a change in the mix of family versus nonfamily households. Over the period from 1970 to 1985, over half to all new households were nonfamily households while about one of every four was traditional husband/wife family households. As a result, married couple households declined from 70.5 percent of all households to 58.1 percent. Growth of the number of families with no spouse present – a reflection of the increase in the divorce rate and a large increase in the rate of births to unmarried women – also contributed to the slower growth of married couple households.

Over the remainder of this century it is expected that married couple households will represent a larger proportion of new households than was the case from 1970 to 1985. For example, from 1985 to 1995, over half of all new households will be family households with about one-third being married couple households. Again, this reflects the fact that the bulk of the new households created over this period will be headed by individuals aged 35 to 54 years, an age group where marriage is more prevalent and divorce less prevalent. However, the proportion of all households which are married couple households is expected to continue to decline, albeit at a much slower rate than in the past.

Also significant is the tenure of the new households expected to be formed over the remainder of this century. The individual household's tenure choice decision is determined by the cost of owning relative to the cost of renting. In the aggregate, the proportion of new households formed which are owners versus renters also depends on the ages of the heads of these new households, since the likelihood of ownership increases with age. It is expected that relatively high proportions of

Exhibit III-6

Estimates of Average Annual Need for New Housing Units*

Million of Units

	1970-1985	1986-1990	1991-1995	1996-2000
Total	1.95	1.90	1.60	1.50
Increase in Households	1.65	1.60	1.30	1.20
Replacement	.30	.30	.30	.30

*Includes allowance for "normal" vacancy rate.

Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.

Exhibit III-7

Average Annual Increase in Households by Marital Status*

Thousands

	1970-1985	1985-1990	1990-1995	1995-2000
Total	1,560 (100.0%)	1,480 (100.0%)	1,210 (100.0%)	1,120 (100.0%)
Family	760 (48.7%)	780 (53.4%)	620 (50.8%)	500 (44.6%)
Married Couple	380 (24.4%)	520 (35.6%)	380 (31.1%)	280 (25.0%)
No Spouse Present	380 (24.4%)	260 (17.8%)	240 (19.7%)	220 (19.6%)
Nonfamily	800 (51.3%)	680 (46.6%)	600 (49.2%)	620 (55.4%)

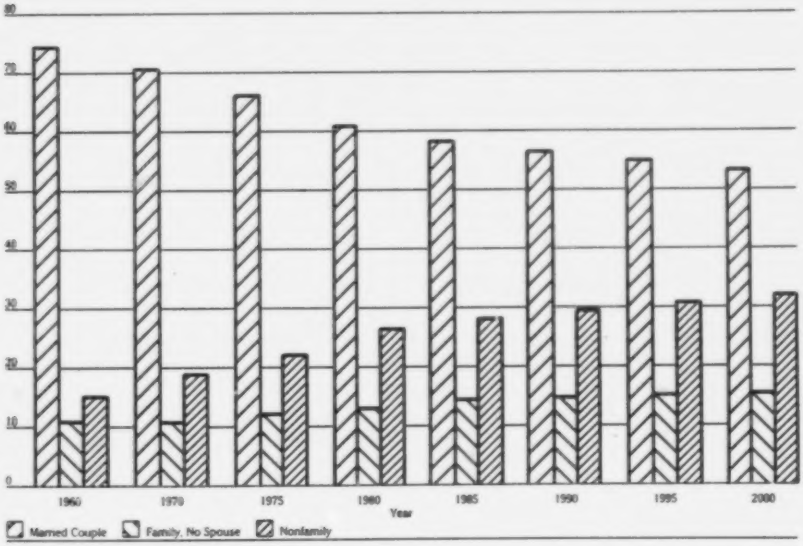
*All numbers have been rounded.

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 412 and Series P-25, No. 986.

Exhibit III-4

Marital Status of Households

Percent of All Households



households to be formed in the future would prefer to be owners. As shown in Exhibit III-9, the proportion of new households which were owners declined to 41 percent during the 1980 to 1985 period, causing the aggregate homeownership rate to decline. From 1986 to 2000, an estimated 70 to 80 percent of new households will be owners thereby boosting the aggregate ownership rate.

Given the types of additional households expected to be formed in the future, it is possible to project the likely mix of future housing construction. As shown in Exhibit III-10, it is expected that while the number of units constructed declines, single-family homes will represent a larger share of the total than has been the case. Moreover, these single-family homes are likely to be larger, with more amenities, to satisfy the demands of move-up or repeat homebuyers.

D. MIGRATION PATTERNS

Slower growth in the number of households is not the only demographic factor to consider in assessing future demand for housing. If there are significant regional shifts in the population, this factor too must be taken into consideration. Exhibit III-11 and Exhibit III-12 show the actual and projected U.S. resident population by region. From 1960 through 1985, the share of total resident population declined in the Northeast and the Midwest, but increased in the South and West. These migration patterns are expected to continue in the future. Because people move, while houses do not, these regional shifts in the population imply more housing demand than would be the case if regional shares remained stable. Additional housing must be provided in the rapidly growing regions.

Exhibit III-9

Actual and Projected Additional Households by Housing Tenure

	Owner	Renter	Aggregate Homeownership Rate at End of Period
1971-75	67.9%	32.1%	64.6%
1976-80	72.9%	27.1%	65.6%
1981-85	41.1%	58.9%	63.9%
1986-90	71%	29%	64.5%
1991-95*	80%	20%	65.4%
1996-2000*	77%	23%	66.0%

*Forecast: Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.

Exhibit III-10

Supply of New Housing Units by Type, 1970-2000

Millions of Units

	Average Annual Level		
	1970-1985	1986-1990	1991-2000
Single-family construction	1.00	1.20	1.00
Multifamily construction	.60	.50	.40
Manufactured housing	.35	.20	.20
Total supply	1.95	1.90	1.60

Sources: Dwight M. Jaffee, "The Demand for Housing Units," Salomon Brothers, Inc., December 1986 and Population Reference Bureau, Inc., "Demographics and Housing in America," Population Bulletin, Vol. 41, No. 1, January 1, 1986.

Exhibit III-11

U.S. Resident Population by Region

	Year	Total, All Regions	Region Northeast	 Midwest	 South	 West
Millions	1960	179.3	44.7	51.6	55.0	28.1
	1970	203.3	49.1	56.6	62.8	34.8
	1980	226.5	49.1	58.9	75.4	43.2
	1985	238.7	49.9	59.2	81.3	47.8
	1990	249.2	48.4	60.3	87.6	52.9
	2000	267.5	46.4	59.7	98.8	62.5
Percent of total	1960	100.0	24.9	28.8	30.7	15.6
	1970	100.0	24.1	27.8	30.9	17.1
	1980	100.0	21.7	26.0	33.3	19.1
	1985	100.0	20.9	24.8	34.3	20.0
	1990	100.0	19.4	24.2	35.2	21.2
	2000	100.0	17.4	22.3	37.0	23.4

Northeast Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania

Midwest Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas

South Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas

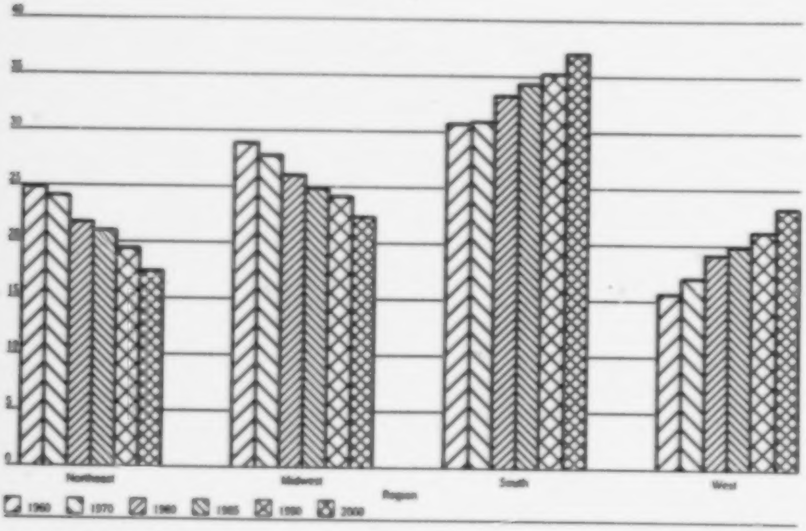
West Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, Hawaii

Source: U.S. Bureau of the Census

Exhibit III-12

U.S. Resident Population by Region

Percent of Total Resident Population



IV. Defining Housing Needs

A. INTRODUCTION

The passage of the Housing Act of 1949 established as a national goal a general upgrading of the nation's housing stock to culminate in "a decent home and suitable living environment for every American family." The following 30 years (1950 to 1980) witnessed massive investment in housing and supporting infrastructure, fueled by rapid economic growth, relatively stable financial conditions, advances in both housing construction and finance, and government policy which clearly encouraged this investment. The results were dramatic. Roughly 60 percent of all year-round housing units in existence today have been built since 1950. The quality of the housing stock, in terms of its physical condition, amenities, and spaciousness, significantly improved. The rate of homeownership increased to the point where roughly two of every three households owned their home.

This achievement does not mean, however, that the housing situation is without problems and that the goal set forth in the Housing Act of 1949 has been achieved. Millions of households continue to live in housing that is physically inadequate or overcrowded. Moreover, particularly in the decade of the 1980s, for a larger and growing number of households, acquiring physically adequate and uncrowded shelter represents a financial burden.

B. THE MEASUREMENT OF HOUSING PROBLEMS

A recent study by the Department of Housing and Urban Development (HUD) takes a close look at the current housing situation based on data from the Annual Housing Surveys (AHS) of 1975, 1977, 1981, and 1983.[1] In this study, as has traditionally been the case, housing problems are separated into two categories, quality and affordability. Housing quality is measured by the physical condition of the housing unit and by the number of people who reside in the unit. Affordability is measured by the extent of financial burden that housing costs impose on the household. In this HUD study quality and affordability are measured by the following three criteria:

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[1] Irby, Iredia, "Attaining the Housing Goal?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986. 1983 is the most recent year for which data are available. A new survey, the *American Housing Survey,* was conducted in 1985. Results from that survey should be available by late 1987 or early 1988.

1. Physical Inadequacy

A housing unit is judged to be physically inadequate when plumbing, heating, electrical, sewage, maintenance, or public hall defects or flaws exist. A housing unit is judged to be severely inadequate when these defects or flaws are determined to be most serious in terms of health, safety, and repair cost.[2]

2. Crowding

A housing unit is defined as crowded when there is more than one person per room.

3. Cost Burden

A renter is considered to be cost burdened when more than 30 percent of gross household income is devoted to housing costs. (A renter's gross housing cost is gross rent which includes contract rent plus the cost of utilities and fuels paid by the renter.) A homeowner paying on a mortgage on that property is considered cost burdened if more than 40 percent of gross household income is devoted to housing costs. (A homeowner's housing costs include mortgage principal and interest, real estate taxes, property insurance, utilities, fuel, and garbage and trash collection. Maintenance costs are not included.)

Exhibit IV-1 presents measures of these criteria of housing problems for four years, 1975, 1977, 1981, and 1983. In 1975, 7.7 million or 10.6 percent of the 72.6 million occupied housing units were deemed to be physically inadequate. Of those, 3.1 million or 4.3 percent of the total were severely inadequate. By 1983, physical inadequacy had declined in both absolute terms, down to 7.6 million units, and relative to the total occupied housing stock, down to 8.9 percent. In total, the number of inadequate units declined by 1.8 percent over the eight-year period. The number of

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[2] The AHS gathered 35 indicators of housing condition and quality. These indicators are used to precisely define the conditions of inadequacy and severe inadequacy. Other researchers have used these same indicators to derive somewhat different definitions of physical inadequacy.

Exhibit IV-1

Extent of Housing Problems in the U.S.: 1975, 1977, 1981 and 1983*

Units in Thousands

		1975	1977	1981	1983	Percent Change 1975 to 1983
Occupied Housing Units/Households		72,553	75,399	83,203	84,842	+16.9%
Inadequate Units	#	7,704	7,641	7,695	7,561	- 1.8%
	%	10.6%	10.1%	9.3%	8.9%	—
Severely Inadequate Units	#	3,123	2,949	2,985	2,876	- 7.9%
	%	4.3%	3.9%	3.6%	3.4%	—
Crowded Units	#	2,742	2,455	2,489	2,230	−18.7%
	%	3.8%	3.3%	3.0%	2.6%	—
Cost Burdened Households	#	8,752	10,101	12,899	14,425	+64.8%
	%	12.1%	13.4%	15.6%	17.0%	—
Total Units With Housing Problems	#	19,198	20,197	23,083	24,216	+26.1%
	%	26.5%	26.8%	27.8%	28.6	—

*Major categories of housing problems are mutually exclusive. Crowded units are only those which are physically adequate while households with a cost burden are only those in physically adequate, uncrowded units.

Source: [illegible] "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986 units regarded as severely inadequate declined by an even greater percentage, down nearly 8 percent to 2.9 million units or 3.4 percent of the occupied stock.

The incidence of overcrowding declined even more substantially over this period. In 1975, 2.7 million units representing 3.8 percent of the stock met the criterion for overcrowding. By 1983, that number had declined about 19 percent to 2.2 million units or 2.6 percent of the occupied stock.

In contrast, the number of households that were cost burdened rose sharply between 1975 and 1983. In 1975, a total of 8.8 million households were considered to be cost burdened, representing 12.1 percent of all households. By 1983, that number had risen 65 percent to 14.4 million or 17.0 percent of all households.[3]

On balance, the number of households or occupied housing units with a housing problem rose by 26 percent to 24.2 million, over one-quarter of the total. Declines in physical inadequacy and crowding were more than offset by increases in cost burden. Moreover, by 1983 the number of cost burdened households exceeded the number of physically inadequate and crowded units. Thus, it is clearly the case that affordability has surpassed housing quality as the primary housing problem facing the Nation.

C. TYPES OF PHYSICAL DEFECTS

Data on actual physical defects indicate that the number of housing units lacking basic facilities, such as kitchens, bathrooms, and plumbing, has been declining as units lacking such facilities are removed from the housing stock. For example, from 1975 to 1983, the number of housing units lacking kitchens declined 45 percent to just 0.8 percent of the stock. Similarly, the number of units without private bathrooms declined 33 percent to 0.4 percent of the stock. However, the data also indicate that the incidence of poor maintenance, as evidenced by such defects as plumbing breakdowns, exposed wiring, and interior walls, ceilings, and floors with cracks and holes, has been increasing. The number of units with recurrent breakdowns of sewage, septic tank, or cesspool equipment increased by 56 percent from 1975 to 1983, while the number of units with exposed wiring increased 69 percent. This trend is not inconsistent with the tremendous increase in the incidence of cost burden. For example, homeowners facing affordability problems likely delay or forgo maintenance expenses that they otherwise would incur if their income allowed. Similarly, landlords apparently delay or forgo maintenance expenses which they would be unlikely to recover in higher rents.

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[3] The terms household and occupied housing unit are used interchangeably, due to the fact that a household is defined as a person or group of persons who occupy a housing unit. The major categories of housing problems are mutually exclusive. Crowded units are only those in physically adequate, uncrowded units. In 1983, 2.9 million households living in physically inadequate and/or crowded units were also cost burdened, bringing the total number of cost burdened households to 17.3 million or 20.4 percent of all households.

D. THE CHARACTERISTICS OF HOUSEHOLDS FACING HOUSING PROBLEMS

Housing problems are considerably more common among renters than among homeowners. In 1983, 6.2 percent of owner-occupied housing units were physically inadequate compared to 13.8 percent of renter-occupied units (see Exhibit IV-2). Similarly, 2.2 percent of owner-occupied units were severely physically inadequate while 5.7 percent of renter-occupied units were severely physically inadequate. With regard to crowding, 1.9 percent of owner-occupied units were crowded compared to 4.0 percent of renter-occupied units. Moreover, in absolute numbers, crowded owner-occupied units declined by nearly 35 percent from 1975 to 1983 while the number of crowded renter-occupied units increased by 3.4 percent.

This increase in the incidence of crowding among renters is likely due to the high and rising incidence of cost burden. By 1983, roughly one-third of all renter households were cost burdened. The incidence of cost burden among owners in 1983 was much lower—8.4 percent. However, the number of cost burdened owners had increased nearly 80 percent from 1975 to 1983, substantially faster than the rate of increase among renters. Overall, in 1983 half of all renter households experienced some type of housing problem compared to about one of every six owner households.

This sharp divergence between owners and renters in the incidence of housing problems is attributable to two factors. First, owners have greater control over the physical quality of their residence. If a plumbing, heating, or some other defect arises, an owner can either fix the problem personally or contract to have the work completed. In contrast, a renter likely would have to call the landlord and request that such problems be corrected.

The second factor is that the incidence of housing problems, particularly affordability problems, is heavily concentrated among the nation's poorest households, a large proportion of which are renters. As shown in Exhibit IV-3, very low-income households, which made up 27 percent of all households and 43 percent of all renters

Exhibit IV-2

Extent of Housing Problems in the U.S. by Housing Tenure: 1975 and 1983

Units in Thousands

		Owners			Renters		
		1975	1983	Percent Change	1975	1983	Percent Change
Number of Households		46,920	54,890	+17.0%	25,633	29,952	+16.8%
Percent of Total Households		64.7%	64.7%	—	35.3%	35.3%	—
Inadequate Units:	#	3,507	3,420	−2.5%	4,197	4,141	− 1.3%
	%	7.5%	6.2%	—	16.4%	13.8%	
Severely Inadequate Units:	#	1,203	1,178	−2.1%	1,920	1,698	−11.6%
	%	2.6%	2.2%	—	7.5%	5.7%	—
Crowded Units:	#	1,585	1,034	−34.8%	1,157	1,196	+ 3.4%
	%	3.4%	1.9%	—	4.5%	4.0%	—
Cost Burdened Households:	#	2,552	4,581	+79.5%	6,200	9,844	+58.8%
	%	5.4%	8.4%	—	24.2%	32.9%	—
Total Units With Housing Problems:	#	7,644	9,035	+18.2%	11,554	15,181	+31.4%
	%	16.3%	16.5%	—	45.1%	50.7%	—

Source: Irby Iredia, "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986.

Exhibit IV-3

Distribution of Housing Problems by Income Class: 1983

	All Households	Very-Low-Income Households[a]	Low- to Moderate-Income Households[b]	All Other
Occupied Housing Units/Households	100.0%	27.0%	18.2%	54.8%
Renters	100.0%	43.0%	21.7%	35.3%
Inadequate Units	100.0%	50.3%	20.5%	29.2%
Severely Inadequate Units	100.0%	56.8%	18.1%	25.1%
Crowded Units	100.0%	41.5%	22.6%	35.9%
Cost Burdened Households	100.0%	71.9%	19.2%	8.9%
Units With Housing Problems	100.0%	62.4%	19.9%	17.7%

[a] A very low-income household is defined as having an income 50 percent or less of the local area median family income.

[b] A low- to moderate-income household is defined as having an income 51 to 80 percent of the local area median income.

Source: Irby Iredia, "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986.

in 1983, represented about 72 percent of all cost burdened households and occupied about half of all physically inadequate housing units.[4]

Overall, very low-income households occupy about two-thirds of all units with housing problems. Low- to moderate-income households make up about 18 percent of all households and occupy about 20 percent of all units with housing problems.[5]

Housing affordability problems among very low-income households worsened dramatically over the period from 1975 to 1983. The number of cost burdened very low-income households increased sharply in both relative and absolute terms over the period. By 1983, 45 percent of very low-income households were cost burdened.

At the same time though, the incidence of physically inadequate units while very high, declined in absolute terms, and the number of very low-income households living in crowded housing declined in relative terms (see Exhibit IV-4).

Overall, two of every three very low-income households experience some type of housing problem, based on these latest available data.

Exhibit IV-5 and Exhibit IV-6 present additional information on the characteristics of very low-income households. For example, half of all very low-income households are female headed, about one-third are headed by an elderly individual, nearly 20 percent are black, and about 8 percent are Hispanic. (Note that these groups are not mutually exclusive.)

Each of these subgroups of very low-income households is experiencing a high incidence of housing problems, particularly affordability problems. For example, 67 percent of very low-income, female headed households were experiencing housing problems in 1983, with 48 percent being cost burdened, 16 percent living in physically inadequate units and 3 percent living in crowded units. For black- and Hispanic-headed households the incidence of housing problems is even greater. For

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[4] A very low-income household is defined as having an income 50 percent or less of the local area median family income. Cash income only is used in making this classification.

[5] A low- to moderate-income household is defined as having 51 to 80 percent of the local area median family income. Cash income only is used in making this classification.

Exhibit IV-4

Trends in Housing Problems Among Very-Low Income Households: 1975 and 1983[a]

Units in Thousands

		1975	1983	Percent Change
Number of Households		19,117	22,943	+20.0
Percent of All Households		26.3%	27.0%	—
Inadequate Units:	#	3,918	3,805	−2.9
	%	20.5%	16.6%	—
Severely Inadequate Units:	#	1,876	1,633	−13.0
	%	9.8%	7.1%	—
Crowded Units:	#	856	926	+8.2
	%	4.5%	4.0%	—
Cost Burdened Households	#	7,049	10,368	+47.1
	%	36.9%	45.2%	—
Total Units With Housing Problems	#	11,823	15,099	+27.7
	%	61.9%	65.8%	—

[a] A very-low-income household is defined as having an income 50 percent or less of the local area median income.

Source: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, 1986.

Exhibit IV-5

Extent of Housing Problems for Selected Groups of Very-Low-Income Households: 1983*

Units in Thousands

		Female Headed Households	Elderly Headed Households	Black Headed Households	Hispanic Headed Households
Very-Low-Income Households		11,474	7,867	4,402	1,899
Percent of Total Households		13.5%	9.3%	5.2%	2.2%
Percent of Very-Low-Income Households		50.0%	34.3%	19.2%	8.3%
Percent of Group		49.0%	44.1%	48.0%	41.1%
Inadequate Units:	#	1,875	1,133	1,313	451
	%	16.4%	14.4%	29.8%	23.8%
Severely Inadequate Units:	#	743	502	562	164
	%	6.5%	6.4%	12.8%	8.6%
Crowded Units:	#	306	15	237	267
	%	2.7%	0.2%	5.4%	14.1%
Cost Burdened Households:	#	5,551	2,649	1,875	775
	%	48.4%	33.7%	42.6%	40.8%
Total Units With Housing Problems:	#	7,732	3,797	3,425	1,493
	%	67.2%	48.3%	77.8%	78.6%

*Groups are not mutually exclusive. For example, a female headed household may also be a black, hispanic, or elderly headed household.

Source: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, 1986.

Exhibit IV-6

Distribution of Housing Problems Among Selected Groups of Very-Low-Income Households: 1983*

	Female Headed Households	Elderly Headed Households	Black Headed Households	Hispanic Headed Households
Percent of Total Households	13.5%	9.3%	5.2%	2.2%
Percent of Inadequate Units	24.8%	15.0%	17.4%	6.0%
Percent of Severely Inadequate Units	25.8%	17.5%	19.5%	5.7%
Percent of Crowded Units	13.7%	6.7%	10.6%	12.0%
Percent of Cost Burdened Households	38.5%	18.4%	13.0%	5.4%
Percent of Units With Housing Problems	31.9%	15.7%	14.1%	6.2%

*Groups are not mutually exclusive. For example, a female headed household may also be a black, hispanic, or elderly headed household.

Source: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, 1986.

both groups, nearly eight of every ten very low-income households were experiencing some form of housing problem.

Elderly headed households with very low incomes had a relatively lower incidence of housing problems than the other groups. About one-third of very low-income, elderly headed households were cost burdened, while about 14 percent lived in physically inadequate units. The incidence of crowding is extremely low for this group. One factor in this relatively favorable housing situation for the very low-income elderly is that the homeownership rate among this group is around 60 percent, significantly higher than for the other groups. Thus, earlier in their lives when they likely had higher incomes, larger numbers of the elderly became homeowners, which helped to stabilize their housing costs. Later in their lives, incomes typically fell, increasing the burden of housing costs and leading to some deterioration in the physical quality of the unit.

The cost burden is not confined to the very low-income group. As shown in Exhibit IV-7, cost burden worked its way up the income scale over the 1975 to 1983 period. The incidence of cost burden increased from 10.2 percent of lower to moderate-income households to 17.9 percent. Similarly, the incidence of cost burden increased among middle- and upper-income households as well.

The data presented, in summary, illuminate several important facts regarding the housing situation in the United States. First, while the physical condition of the housing stock has vastly improved since the end of World War II, millions of primarily lower income households continue to live in housing plagued by serious physical defects. Second, for an even larger and growing number of households, acquiring physically adequate and uncrowded shelter represents a serious financial burden. Moreover, while the affordability problem is largely concentrated among lower income households, it is increasingly becoming a problem for middle-income families as well. Clearly, housing costs are rising faster than income for an expanding segment of our society.

Exhibit IV-7

Incidence of Cost Burden Among Income Groups: 1975 and 1983

	1975	1983
All Households	12.1%	17.0%
Very-Low-Income	36.9%	45.2%
Low-to-Moderate Income	10.2%	17.9%
All Other (Middle-and Upper-Income)	0.8%	2.8%

Source: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986.

V. The Unique Role of Homeownership

A. THE MEANING OF HOME

The concept of home connotes not only a physical cube of space, a "place," but, more significantly a sense of "state of being" in the essence of "home."

The word for home comes from the Dutch culture of the late 1600s, where "hejm" was used to describe a place where the family came to live. During prior periods, the place where people lived was a self-contained living and working space. It included not only a mother, father, and children, who ate and slept and relaxed there, but relatives and workers who contributed to the economic success of the maintenance of the place. The "hejm" of the Seventeenth Century Dutch was much more intimate and concentrated. The home of the Dutch was no longer a workplace. Nor, as had been the circumstances of the manor houses of the Fifteenth and Sixteenth Centuries, were the homes of the Seventeenth Century Dutch augmented by servants – live-in or otherwise.

The "hejm" of the Dutch was much more than a "dwelling". Rather, it included too the contents, the surroundings, and the people in the dwelling. Most important, it was the sense of contentment and satisfaction that all these, in unity, conveyed.

There is a pithy expression that "home" is the place where, when you knock on the door, those inside will always welcome you in. This sense of refuge, and of welcome, of resident affection, was, to the Seventeenth Century Dutch, more than a building; it was a state of being, synthesized into a physical structure.

There is, in the concept of home, a sense of privacy and domesticity. The "hejm" of the Seventeenth Century Dutch evolved an additional element as the experience of the relatively isolated social unit of the family became accepted. The element of comfort entered into what is needed to make a building a home. Furniture, kitchens, plumbing, and entertainment for the inhabitants became – and continue to be – elements distinguishing between a shelter and a home.

All of these features and feelings, imbedded in a single, simple Dutch word, combine to describe the aspiration of most Americans to own a home of their own. The Housing Features Consumer Survey, recently conducted by the MIT/Harvard Joint Center for Housing Studies, provides important new evidence that the vast majority of Americans prefer to own their homes. Homeownership has long been recognized as a benefit to society in general. The 1931 President's Conference on Housing and Home Ownership observed,

> A family that owns its home takes a pride in it, maintains it better. They have an interest in a social system that permits an individual to store up the fruits of his labor. As direct taxpayers they take a more active part in local government. Above all, the love of home is one of the finest instincts and the greatest inspiration of our people.

The reasons reflect the response of the Seventeenth Century Dutch to the industrial development of their economy that allowed the family to live in a structure that was no longer required to be shared with outside workers needed for the family business enterprise or distant relatives who had nowhere else to live. A single-family home with privacy and all that it entails—a yard, a space for the private use of the family—are attractive to over 80 percent of homebuyers recently interviewed in *Builder* magazine's 1987 annual survey.

Perhaps most significantly, Americans with the financial ability to do so have voted their dollars for homeownership. But the question that is left is: "Do those with a lesser income, if assisted in doing so, also aspire to homeownership?" Every survey reported indicates that they do. The issue then becomes: "Can and will the Federal government recognize and take steps to facilitate the opportunity of Americans to own their homes, and if so, how?"

B. THE ECONOMIC VALUE OF HOMEOWNERSHIP

Homeownership has other dimensions in the national consciousness. Owner-occupied homes represent a major portion of our real economic wealth. Wealth accumulation plays a key role in planning for retirement, determining consumer saving and spending, providing bequests to descendants, and influencing national capital formation and economic growth. In short, the accumulation of wealth through homeownership has significant economic impacts and is a key element of the nation's economic well-being.

Owner-occupied homes have a value of over $3.6 trillion, as shown in Exhibit V-1. This constitutes about 22 percent of total household assets, down from over 25 percent in the late 1970s.

Since owner-occupied housing is a leveraged asset (i.e., part of the value is financed), and home mortgages do not automatically incre[illegible] with inflation, home

Exhibit V-1

Household Sector Assets, Liabilities, and Net Worth

Billions of dollars, except where noted

Year	Assets		Net Worth		Owner Occupied Real Estate as a Percent of Total Assets	Home Equity as a Percent of Total Net Worth
	Total	Owner Occupied Real Estate	Total	Home Equity		
1960	1973.9	372.9	1745.7	235.6	18.9	13.5
1961	2149.6	388.0	1903.3	238.5	18.0	12.5
1962	2161.8	403.8	1893.7	240.5	18.7	12.7
1963	2328.0	414.7	2030.3	234.8	17.8	11.6
1964	2495.7	441.1	2168.3	243.8	17.7	11.2
1965	2691.1	462.2	2332.4	247.9	17.2	10.6
1966	2788.8	510.5	2405.9	282.0	18.3	11.7
1967	3087.5	537.0	2679.0	296.3	17.4	11.1
1968	3445.7	600.4	3000.5	342.7	17.4	11.4
1969	3515.5	655.6	3038.1	379.4	18.6	12.5
1970	3670.2	689.8	3149.3	398.8	18.8	12.6
1971	4043.8	767.9	3494.8	453.1	19.0	13.0
1972	4476.4	859.3	3860.2	506.3	19.2	13.1
1973	4709.3	997.5	4019.4	600.7	21.2	14.9
1974	4950.3	1137.7	4209.1	706.3	23.0	16.8
1975	5551.9	1233.1	4760.6	763.4	22.2	16.0
1976	6275.5	1415.9	5387.7	886.5	22.6	16.5
1977	6968.7	1685.0	5940.0	1065.8	24.2	17.9
1978	7986.7	2015.8	6788.7	1288.1	25.2	19.0
1979	9197.2	2323.6	7830.9	1476.7	25.3	18.9
1980	10537.1	2568.9	9029.2	1625.6	24.4	18.0
1981	11434.2	2845.6	9796.4	1822.6	24.9	18.6
1982	11911.6	2703.4	10184.9	1638.8	22.7	16.1
1983	13141.6	3062.6	11216.4	1887.9	23.3	16.8
1984	14006.7	3230.5	11849.2	1927.1	23.1	16.3
1985	15336.2	3332.7	12873.4	1882.7	21.7	14.6
1986	16806.5	3677.2	14049.3	2030.4	21.9	14.5
Compound annual growth rates (percent)						
1960-86	8.6	9.2	8.4	8.6	—	—
1960-70	6.4	6.3	6.1	5.4	—	—
1970-80	11.1	14.1	11.0	15.1	—	—
1980-86	8.1	6.2	7.6	3.8	—	—

Source: Board of Governors of the Federal Reserve System, *Balance Sheets for the U.S. Economy 1947-86* (May 1987).

equity increased more rapidly than the inflation rate. For this reason, homeownership has been viewed as an effective hedge against inflation. Home equity as a share of net worth increased during periods of accelerating inflation, such as 1972–74 and 1976–79, and, generally, decreased as a share during periods of decelerating inflation, such as 1974–75 and 1980–86.

In any case, homeownership clearly plays an important role in accounting for growth in aggregate household sector net worth. However, the significance of homeownership becomes much more pronounced when considering the distribution of wealth.

Significantly, the investment benefits of homeownership are not limited to middle- and upper-income people. In fact, home equity is one of the most equally distributed components of net worth. Furthermore, homeownership is a relatively more important source of asset accumulation for low- and middle-income households than for the wealthy.

Exhibit V-2 shows the homeownership rate by income quintile and illustrates several important points. First, the overall homeownership rate is about 60–65 percent – an important indicator of the widespread distribution of this type of asset. Second, even in the lowest two income quintiles, nearly one-half of all households owned homes. Third, over time, homeownership rates have declined in the lowest income quintile, but increased in the highest income quintile. Reasons for this include demographic changes and trends in interest rates. Over the 1960–83 period, single mothers and persons living alone – population subgroups that traditionally experience relatively low homeownership rates at all income levels – have become increasing proportions of low-income households. But over the same period, nominal interest rates have trended dramatically upward and have made it far more difficult for low-income households to afford to buy a home.

To review: Homeownership has been an important contributor to the growth of aggregate household wealth in the United States. Homeownership has been an effective inflation hedge. When inflation and inflation expectations were high, appreciation in owner-occupied real estate contributed to increases in the relative importance of homeownership as a component of net worth. And, homeownership has played a crucial role compared with other types of assets in making the distribution of wealth in the United States more equitable.

Exhibit V-2

Homeownership Rate by Income Quintile

Percent

	Income		Quintile			
Year	Lowest	Second	Third	Fourth	Highest	All Quintiles
1960	51.0	50.8	59.2	70.0	78.3	61.9
1970	49.9	51.2	60.8	72.4	80.2	62.9
1975	46.5	53.9	63.5	73.8	85.5	64.6
1980	46.1	54.1	62.1	77.7	83.0	65.6
1983	43.4	54.0	63.0	75.8	87.2	64.7

Sources: For 1960 and 1970: U.S. Department of Commerce, Bureau of the Census, *Census of Housing*. For 1975, 1980, and 1983: U.S. Department of Commerce, Bureau of the Census and U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Annual Housing Survey: Financial Characteristics of the Housing Inventory*. Quintile splits were estimated by using grouped data from the volumes noted above.

C. CONCLUSION

Homeownership should be a cornerstone of American housing policy. Homeownership provides opportunities as varied as the American people themselves. It provides the opportunity for independence, individualism, self-expression, and a sense of fulfillment. Homeownership also gets people involved in their community, its government, and in the private property system – it builds good citizens. Homeownership provides a place of security and sense of belonging that forges stability and solid family ties.

The next two chapters examine in detail programs for achieving widespread opportunities for homeownership, and ways in which they can be improved.

VI. Federal Mortgage Insurance

The cornerstone of the Federal government's structure of programs to promote homeownership over the years has been the use of Federal mortgage insurance. (The same approach has been effective also in more recent years for multifamily housing as well.) In contemporary jargon, we would refer to this approach as "credit enhancement."

The mortgage insurance concept takes advantage of the power, the absolute security, of the Federal credit assurance to act as an engine to generate private capital for housing. Its appeal is heightened by the fact it has proven an effective way to lower interest costs to homebuyers, and increase the flow of housing credit, at no budget cost to the government.

Each of the programs discussed in this section of the report is based on this remarkably simple yet equally remarkably effective idea of Federal credit insurance. Each of these programs should be continued, but further improved in the ways recommended.

A. FEDERAL HOUSING ADMINISTRATION

1. Introduction

The Federal Housing Administration (FHA) was created in 1934 to address the serious economic and housing problems facing our nation at that time. In addition to the immediate goals of stimulating the economy and putting people back to work, FHA was charged with the more far-reaching responsibilities of broadening homeownership opportunities and providing stability and uniformity to a beleaguered housing industry.

FHA insurance has allowed lenders to offer more liberal terms to borrowers, expanding greatly the number of families who can afford to purchase their own homes. Amortization of loans over longer periods and lower cash investments are two examples of how FHA experience transformed mortgage lending practices in this country and offered homeownership opportunities to families who otherwise would be unable to purchase homes. In addition to its financing innovations, FHA has improved the quality of single-family and multifamily housing construction through the development of building requirements that have since become the standard for the industry.

Unlike many other Federal government initiatives, FHA was founded on the concept of a public/private partnership. Other than the funds required to set up the agency, which were paid back in 1940, FHA's basic unsubsidized program [Section 203(b)] has not cost the American taxpayer any money. The more than 15 million families who have benefited from FHA mortgage insurance have borne the entire cost and, in fact, have made substantial contributions to the U.S. Treasury. Over the last three fiscal years alone, over one-half billion dollars in net profits have been realized from the FHA Section 203(b) program.

Over the years, two principal missions have evolved for FHA's programs. They are (1) to serve the housing needs of Americans who are not adequately served by the private sector alone, and (2) to be at the forefront in the development of innovative mortgage financing techniques necessitated by changing market conditions. These, together with FHA's underlying social purpose, compose the foundation on which FHA has built its programs.

FHA has surely exceeded the expectations of its founders. Like any successful organization, however, FHA cannot remain constant. Times change and new problems arise requiring innovative solutions. In this section, the impact of changing market conditions on the role of FHA is analyzed and proposals are presented to keep FHA current with the needs of the homebuying public.

FHA's overall share of the home finance market has shifted dramatically over the years, as has that of the Veterans Administration (VA) financing. The role of these agencies is significantly smaller today than it was in the 1950s, as private mortgage insurers have grown in importance in serving a wide range of middle- and upper-income homebuyer financing requirements. Exhibit VI-1 shows the growth and changing importance of the various forms of home mortgage insurance over the past three decades.

While FHA has been tremendously successful in its first 50 years, there are several forces at work in the marketplace that must be addressed if FHA is to be as successful in its second 50 years. There are two factors which particularly exemplify the problem that FHA faces in striving to fulfill its two fundamental objectives outlined above. The "affordability crisis" threatens to undermine FHA's ability to provide lower income families with homeownership opportunities. The compelling demographic data, presented elsewhere, and the growing housing needs of elderly homeowners, necessitate that new financing mechanisms be developed to meet these emerging needs.

For many elderly families, the equity in their home represents their principal source of savings. At the same time, studies clearly indicate that the elderly

Exhibit VI-1

Residential Single-Family Mortgage Origination Activity

Millions of Dollars

	Total	FHA	VA	FmHA	Conventional		
					All	Insured	Uninsured
1986	455,205	62,038	30,891	1,162	361,121	46,138	314,983
1985	244,873	28,436	15,582	1,707	199,058	50,475	148,583
1984	205,556	16,600	12,024	1,851	175,081	63,403	111,678
1983	204,006	28,753	18,880	2,104	154,229	42,363	111,866
1982	99,438	11,482	7,687	2,487	77,782	18,753	59,029
1981	100,700	10,538	7,534	2,487	80,141	18,079	62,062
1980	136,626	14,953	12,102	2,865	106,704	19,035	87,669
1979	189,488	20,682	18,831	2,893	147,082	25,327	121,755
1978	187,739	14,581	16,026	2,703	154,429	27,327	127,102
1977	164,549	10,469	14,882	2,576	136,622	21,595	115,027
1976	115,685	6,998	10,426	2,900*	95,361	14,600	80,761
1975	79,843	6,265	8,836	1,931	62,811	10,024	52,787
1974	69,100	4,532	7,886	1,594	55,088	9,220	45,868
1973	80,866	5,185	7,577	1,740	66,364	12,627	53,737
1972	77,430	8,456	7,749	1,566	59,659	9,158	50,501
1971	59,156	10,994	6,830	1,368	39,964	3,526	36,438
1970	36,349	8,700	3,846	702	22,972	1,116	21,856

*Includes Transition Quarter Fiscal Years 1976-77

Source: U.S. Department of Housing and Urban Development, Veterans Administration and Farmers Home Administration prefer to stay in their current housing situation and only a change in life circumstances, usually deterioration of personal health or death of a spouse, has been the prime motive behind a decision to move to retirement housing. As a result, new initiatives must be developed that allow the elderly to tap their equity without having to change their housing.

2. Proposals

In this section, a variety of proposals are offered to address the issues raised above as well as to improve FHA's existing programs.

a. General program improvements. Changes should be made to the current FHA single-family program to improve its operation and ensure that homeownership opportunities are available equally throughout the country.

(1.) **Maximum mortgage ceiling.** The maximum mortgage ceiling is intended to target FHA activity to moderate-income homebuyers. However, it is important that they have generally equitable applicability for the entire country. While the indexing concept introduced in 1979 legislation is supported, the maximum cap of $90,000 has served to exclude many middle-income families in high-cost areas. The scarcity of FHA mortgage activity in many of the metropolitan areas around New York, San Francisco, and other high-cost cities documents this problem. For that reason, MBA recommends that the current statutory language be revised to eliminate the $90,000 limitation on FHA mortgages and substitute for it a requirement that the FHA mortgage limit be the greater of $101,250, or 95 percent of the area's median sale price. In that way, FHA activity would generally be confined to the lower half of the housing market, but would be available on an equivalent basis to homebuyers regardless of where they live.

(2.) **FHA ARM program.** When interest rates rise, alternative mortgage instruments become critical to keep homeownership affordable for many Americans. The current limitations on the volume of FHA adjustable rate mortgages (ARMs) of 10 percent of the previous year's origination activity and the 1 percent cap on an interest rate adjustment in any one year severely curtail the use of this program. As a result, it is recommended that any cap on ARM activity be removed and FHA be permitted to insure ARMs with 2 percent interest rate increases per year with a 5 percent lifetime cap.

(3.) **FHA's credit budget limitations and insurance authority.** FHA's ability to insure loans is subject to a need for annual reauthorization by Congress. In addition, Congress now sets each year a limit, called a Federal credit budget limit, on the dollar volume of loans that may be insured.

During 1986, delays in the extension of FHA insurance authority and the increase of FHA's credit authority severely disrupted lenders' ability to work with FHA's programs and therefore adversely affected homebuyers. These disruptions delayed closings several weeks and created severe hardships for homebuyers and sellers who depended on the continued availability of FHA programs in making necessary plans involved with buying and selling their homes. In addition, homebuyers were subjected to considerable unexpected costs when interest-rate commitments ran out in times of rising interest rates when lenders had no authority to close loans after insurance authority was suspended. Delays have often resulted from FHA insuring extensions or from credit increases being held hostage to other more controversial issues.

MBA recommends that FHA's insurance authority be made permanent, and the FHA credit budget limitation should be eliminated.

FHA should insure all loans to qualified borrowers. As noted earlier, the mortgage limits effectively constrain FHA's market share to low-, moderate-, and middle-income borrowers. If elimination is not feasible, a reasonable cap should be adopted with a notification procedure that gives Congress adequate notice to modify the cap as the need arises.

(4.) **Shared-equity program.** Since 1983, FHA has allowed shared-equity arrangements where the investor has no interest other than a financial one to obtain high-ratio loans. As a result, sellers have used this program as a means of selling their homes to borrowers who might not qualify for a loan on their own. MBA believes that the loan-to-value ratio (LTV) should be reduced to 85 percent on shared-equity arrangements where the relationship between the parties is strictly a financial one, as it was prior to 1983. This change would not affect shared-equity arrangements involving family members or an unrelated person who can demonstrate an established personal relationship to the occupant that did not arise from the transaction.

b. **Responding to demographic change.** It is essential that HUD, consistent with its tradition, be at the forefront in the development of a financing mechanism to address the housing needs of our changing population.

(1.) Senior citizens. Because of the uncertainty with the secondary market acceptance of a reverse annuity mortgage instrument, as well as problems dealing with the elderly at the end of the annuity period, HUD should take a very active role. As a starting point, HUD conducted a study on reverse annuity mortgages pursuant to the Housing and Urban-Rural Recovery Act of 1983. Currently pending legislation has provisions for a demonstration reverse annuity loan program. MBA heartily recommends that HUD continue its research on this issue as well as other possible alternatives in this area, and in any event implement a demonstration RAM program as soon as possible.

(2.) Housing in rural areas. FHA has opportunities to enable lenders to more easily do business in rural and exurban areas. For example, while FHA permits lenders to use local personnel who do not work for the lender, the mortgagee still must conduct face-to-face interviews and perform other duties that discourage lender participation. These requirements should be reviewed and exceptions should be considered for rural areas. In addition, currently loan correspondents must fulfill a $25,000 net worth requirement, which inhibits participation in the program. This could be waived for loan correspondents in rural areas if the lender purchasing a loan from a correspondent assumes liability for quality control over the purchased loan.

c. Improving the Quality of FHA Loans

(1.) Investor program. FHA-insured loans on one- to four-family homes used as rental housing, so-called "investor loans," have received careful scrutiny from all quarters of the residential finance industry. FHA took prompt action by prohibiting such refinancings in May 1985 when abuses cropped up with investors who were refinancing for more than the current loan balance and then permitting the new loan to become delinquent. MBA applauds the action that FHA has taken in this area. While the easy answer would be to preclude investors entirely from FHA programs in the future, MBA is concerned about the impact of that decision on the rental housing market.

For large lower income families, renting a single-family home is often their only option for housing large enough to accommodate them. We believe that the underwriting problems and losses can be addressed in a more precise fashion without reducing housing opportunities for low-income families. For this reason, MBA recommends that FHA's investor program be retained, but with the loan-to-value ratio lowered to 75 percent of appraised value.

(2.) Assumability. Loan assumptions have been associated with recent FHA claim problems. MBA shares FHA's concern about the use of FHA's simple assumption process by unscrupulous individuals. However, we believe the current two-year requirement on the evaluation of an assumptor's credit worthiness is excessive and serves to increase costs to homebuyers. For that reason, MBA believes that credit evaluation of individuals who assume FHA properties within 12 months after closing represents a more reasonable requirement without creating unnecessary costs to the homebuying public.

d. Organizational Structure and Administrative Changes

At present, the FHA Commissioner does not have direct control over HUD field offices that carry out FHA's programs. Under the current structure, the FHA Commissioner cannot establish work priorities for field offices. To administer a program of the size of FHA's effectively, it is essential that FHA have direct control over field office operations. In addition, the regional management concept established over 11 years ago has not proven effective. As a result, MBA recommends that HUD field offices report directly to headquarters and regional staff be reassigned duties at field offices.

A recurring problem facing FHA is its staffing level, and quality. As employees retire or resign, the capability of FHA to carry out its monitoring and training responsibilities in the field offices is reduced.

MBA recommends the following steps to assure adequate FHA staff levels and quality:

(1.) A comprehensive training program should be funded so that FHA will have an adequate number of employees ready to step in when current employees retire or resign.

(2.) The grade structure for determining salaries should be comparable to what individuals receive in the industry. Otherwise, FHA will not be able to attract and retain the type of talent necessary to manage a multibillion dollar agency.

(3.) With the implementation of the Gramm-Rudman provisions, FHA staff may be subjected to additional cuts if sequestration occurs. Since the principal nature of FHA work is the review of lender processing under Direct Endorsement, the FHA situation is analogous to that of the Federal Savings and Loan Insurance Corporation (FSLIC) and Federal Deposit Insurance Corporation (FDIC). As a result, MBA recommends that FHA staffing be exempted from sequestration.

B. VETERANS ADMINISTRATION – LOAN GUARANTY PROGRAM

1. Background

The essential fact about the VA home loan program is that it is an entitlement earned by men and women who have served in their country's armed forces. The program makes possible home loans on more generous terms (no downpayment), with comparatively liberal conditions for qualifying, and historically no fee for the use of the Federal guaranty (though in recent years an up-front fee first of 1/2 percent, later raised to 1 percent, has been imposed).

Without the entitlement elements of the program, there would be no special need for a separate home loan program for veterans. The FHA program would suffice. Indeed, the FHA program serves large numbers of veterans, but without the beneficial features of the VA loan programs to which users are entitled.

The VA home loan guaranty program was established in 1946 for the purpose of encouraging and facilitating extension of favorable credit terms by private lenders to veterans for the purchase, construction or improvement of homes to be occupied by the veterans and their families. As with the FHA programs, VA operates by substituting the Federal Government's guaranty to lenders against financial loss on loans to veterans for the investment protection afforded under conventional mortgage terms by downpayments and more stringent underwriting requirements.

Eligible veterans are thus enabled to finance home purchases, even though they may not have the resources to qualify for conventional loans. Under present law, home loans may be guaranteed up to 60 percent of the amount of the loan but not to exceed $27,500. In the event of a default, VA, through its contract of guaranty, pays the loss sustained by the holder of the loan, up to the amount of the guaranty.

A discussion of the VA program should recognize that the VA's loan guaranty program is not operated by a housing agency. VA's primary function is to operate a vast health care system. The Department of Medicine and Surgery runs over 170 medical centers, for instance, and employs over 200,000 people. The next most important role of VA is the administration of the compensation and pension systems. This function is carried out by the Department of Veterans Benefits (DVB), which also administers the loan guaranty program. There are approximately 13,500 employees in DVB; approximately 2,000 are in the loan guaranty program.

The VA program is in trouble financially. Since fiscal year 1984, Congress has appropriated over $700 million into the Loan Guaranty Revolving Fund (LGRF). The only previous appropriation into the LGRF was in 1963 when the fund was established. In addition to appropriations, VA has transferred approximately $500 million into the fund since FY 84 from other accounts. Funding fee revenues of $250–$300 million per year are not sufficient to support the program. The situation is not likely to improve in the short run. VA's assets are tied up in the some 33,000 properties which it currently has in inventory.

Although the program was considered self-supporting by the Congress, it was actually funded by a large portfolio of vendee and direct loans which earned enough interest income to sustain the fund during short periods of high delinquency. In FY 81 the direct loan program was terminated and the VA was required to sell its portfolio of vendee loans. Then losses continued to increase due to large numbers of foreclosures first in the Rust Belt area and then the Oil Patch states. Portfolio loans were sold almost as soon as they were originated in order to fund the deep losses to the LGRF. Shortfalls were made up by appropriations and transfers from the Direct Loan fund.

The problem loans today are primarily those originated prior to 1983. The problem loans are also concentrated in the economically distressed parts of the country. The tightening of underwriting standards which was started in 1985 and continued in 1986 appears to be working. Early default experience with loans originated in 1985 and 1986 is substantially better than in prior years.

2. The "No-Bid" Issue

Under the default and foreclosure provisions of the VA home loan guaranty program, VA has always had the option of either acquiring a foreclosed property and paying the lender the loan amount or leaving the property with the lender and only paying the guaranty amount (a "no-bid"). Although VA had the authority to exercise the "no-bid" option, prior to August 1984, it did so only in very isolated cases. However, in the Deficit Reduction Act of 1984, Congress included a specific formula that significantly altered VA foreclosure claim practices and forced VA to enter into no-bids. This change represented a drastic departure from experience of the previous 35 years of the VA home loan guaranty program during which the VA, in almost 99 percent of the cases, paid the entire loan amount to the lender and acquired the property.

Foreclosures of VA guaranteed home loans have more than doubled in the last five years, with most of the increase concentrated in geographic areas of the country that have been devastated by severe economic setbacks. With increasing frequency (from 238 cases in 1982 to 5,236 cases in 1986), the VA has been paying the lender only the guaranty amount and leaving the foreclosed property, that has greatly depreciated in value, with the lender. The no-bid situation has caused lenders to suffer severe losses. With an average net loss per loan of $16,500, industry-wide losses totalled more than $86 million in 1986.

Currently, the statutory formula that determines whether a VA foreclosed loan results in a no-bid is as follows: If the outstanding debt exceeds the appraised value of the house (net of VA administrative costs equal to 10.5 percent of the loan) by more than the guaranty amount, the VA pays the lender only the guaranty amount, and leaves the lender in possession of the house.

Lenders can no longer accept the risk of originating VA loans, as they did in the past. Lenders often now underwrite to conventional standards and even require downpayments. The program objective of assisting veterans who do not have money for a downpayment or who may not qualify for conventional financing is no longer being met in many instances.

The forgotten people in the no-bid controversy are the veterans who have lost their homes. Not only have they experienced the ignominy of a public foreclosure but they will be asked by the VA to repay the claim amount. This amounts to a debt to the government of up to $27,500. VA benefits may be offset against the debt. If the veteran is an employee of the Federal government or the Postal Service, wages may be garnished. Failing that, VA refers the matter to private collection agencies and then to the Internal Revenue Service (IRS) so tax refunds can be offset. The government is serious about its collection program and veterans are going to be severely hurt. To make matters worse mortgage lenders are required to report the results of foreclosure sales to the IRS. The IRS, acting independently, considers the unpaid amount forgiven debt and thus taxable.

These conditions do a disservice to the veterans the program was intended to help. The Congress is on record supporting continuation of this program. However, unless the Congress takes steps to restore the program to a healthy status, it will continue to wither. To this end the following actions need to be undertaken:

a. Congress and the Administration should assert their commitment to the VA home loan guaranty program with adequate support both in the funding for and in the administration of the program. The VA loan guaranty should be reaffirmed as an important veteran's entitlement to be preserved. Funding levels should be sufficient to keep the program solvent.

b. The VA no-bid formula should be amended to address the problems of economically distressed areas and to reduce or eliminate the penalty to lenders when the foreclosure process is delayed and the delay is beyond the control of the lender. Specifically, in no-bid cases when the property value has declined more than 15 percent, the lender should have the option of :

(1.) Taking the guaranty amount and retaining title to the property, or

(2.) Conveying the property to VA and forfeiting 5 percent of the outstanding indebtedness at the time of liquidation.

c. The following additional changes would also help alleviate the no-bid problem:

(1.) **Delegation of foreclosure authority to lenders to reduce delays in the bidding and foreclosure process.** Congress should grant lenders the authority to: (a) order the pre-foreclosure appraisal, (b) make the required calculation to determine whether the VA should pay the guaranty amount, and (c) determine the appropriate bidding instructions at the foreclosure sale.

(2.) **Costs of avoidable delays in foreclosing loans should be borne by the VA in cases where the VA is responsible for postponing the expeditious completion of foreclosure.** Interest that accrues after the lender is ready, willing, and able to foreclose should not be included in the debt amount used in the calculation to determine whether there is a no-bid. If the VA acquires the property, the VA should reimburse the lender for the accrued interest.

(3.) **Delays caused by circumstances beyond the control of the VA or the lender, such as bankruptcy, should be considered in adjusting the calculation.** The lender should have the option to forfeit accrued interest in exchange for not having that interest included in the no-bid calculation.

(4.) **Costs of delays caused by forbearance requested by the VA on the part of the lender in the hope of avoiding foreclosure should not be charged to the lender.** Interest that accrues during the forbearance period should not be included in the no-bid calculation. The lender should be reimbursed by the VA for the interest accrued during the delay if the VA does acquire the property.

(5.) **Greater use should be made by the VA of the deed-in-lieu of foreclosure procedure.** Acceptance of a deed-in-lieu of foreclosure reduces the cost of acquiring a property, while preserving a veteran borrower's credit record – it is often the most fair and expeditious route, particularly in cases where the default is caused by adverse economic circumstances beyond the veteran's control.

3. Other Programmatic Changes

a. **VA maximum loan guaranty.** The VA maximum guaranty amount of $27,500 has not been changed since 1980. As a result, the guaranty amount has failed to keep pace with appreciation in home sales prices, which have increased some 31 percent during the past seven years, as measured by the median price of all homes sold. In order for lenders to continue to make home loans to veterans for median priced homes, the loan guaranty should be increased to at least keep pace with inflation.

b. **Adjustable rate mortgages (ARMs).** Conventional and FHA mortgage markets acceptance of ARMs has demonstrated they are beneficial – permitting borrowers and lenders to tailor transactions to borrowers' needs. VA ARMs should be authorized, without a statutory limitation on the number that can be guaranteed.

4. Organization and Staffing Issues

Adequate staffing, as with FHA, is a chronic problem in most VA field offices. This problem shows up in the extraordinary delays lenders routinely experience in receiving claim payments from VA. It is not unusual for backlogs to result in delays of three to four months in the payment of claims, and delays of over three months are routine in some VA offices.

Understaffing at many field offices is also discouraging veterans, lenders, builders and brokers from using the VA program. Understaffed offices are unable to provide the proper level of service to veterans and program participants. Thus all parties involved are discouraged and hesitate to use VA guaranteed financing.

To make matters worse, the VA program is currently experiencing a talent gap. Many young, talented individuals have left the VA during the last few years. Changes in the industry these last few years have given many opportunities to underwriters and appraisers. The situation is accelerated by the changes in the civil service rules which eliminated the entry level program for college graduates. There are currently very few trainee type positions in the VA system. More often than not technical entry level jobs (underwriters, loan specialists, appraisers) are held by individuals who were clerks and promoted into these positions. It has become extremely difficult to fill key management positions during the last few years.

To assure adequate VA staff levels and quality, MBA recommends that:

a. There should be adequate staffing for the loan guaranty program in all field offices.

b. Adequate training levels must be restored so that veterans and program participants will receive a proper level of service.

Another management move that offers promise for improved administration of the VA program involves consolidation of VA field offices. The loan guaranty operations in the field are ripe for consolidation. The very small offices are just too inefficient. For example, one New England office has just five loan guaranty employees, and another has nine. The entire New England operation could easily be consolidated into Boston with a very small increase in the Boston work force. A systematic plan to consolidate functions in the VA home loan program would go a long way in solving some of the manpower and management problems.

VII. The Secondary Market: Federally Chartered Agencies

The foundation of the Federal government's policy toward fostering homeownership and affordable rental housing rests in a firm and necessary commitment to assuring a stable, reliable, and low-cost flow of private credit to the mortgage market. In shaping this commitment, Congress created three principal Federal and federally sponsored financial intermediaries – the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – to provide a secondary market for the purchase and sale of single-family and multifamily residential mortgages. Together, these agencies assist the housing market by garnering private capital, at the lowest possible cost, to meet the mortgage credit needs of homebuyers.

Ginnie Mae, Fannie Mae and Freddie Mac act to broaden the sources of mortgage credit; attract investors to the mortgage market who would not otherwise invest in residential loans; stabilize the flow of credit during cyclical economic downturns; and channel mortgage funds from capital surplus to capital poor or regionally distressed areas of the country. In so doing, Ginnie Mae, Fannie Mae and Freddie Mac help create a level playing field for all mortgage lenders, large and small, regardless of where they are located but which must now compete with large corporate borrowers in the national and international debt markets. The ultimate beneficiaries of the secondary market created by Ginnie Mae, Fannie Mae and Freddie Mac are homebuyers as well as renters who gain from the increased supply and lower cost of mortgage funds. This is achieved at no cost, in fact at considerable gain, to the government.

The premier housing finance system this country enjoys, and which is envied the world-over, would not have been possible without Ginnie Mae, Fannie Mae and Freddie Mac. A brief discussion of the history, functions and method of operating of each is appropriate.

A. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Ginnie Mae was created by Congress in 1968 as a part of the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae supplies and stimulates mortgage credit that supports the government's housing objectives by assisting that segment of the housing market for which conventional financing is not readily available.

Ginnie Mae accomplishes this mission by guaranteeing the timely payment of principal and interest for pass-through mortgage-backed securities (MBSs). These securities are backed by, and generate funds for, mortgages insured by FHA and the Farmers Home Administration or guaranteed by the VA. Under Ginnie Mae's MBS program, lenders which are approved by the agency have the primary responsibility of originating and pooling mortgage loans, then for marketing the securities in the capital markets. Through this program, Ginnie Mae had guaranteed securities backed by more than $300 billion of mortgages as of September 30, 1987.

B. FEDERAL NATIONAL MORTGAGE ASSOCIATION

Fannie Mae was created by Congress in 1938 as a wholly owned government corporation. In 1954, the agency was re-organized as a mixed ownership entity, owned partly by private shareholders and partly by the Federal government. With the creation of Ginnie Mae in 1968, Fannie Mae was partitioned from the Federal government into a wholly owned, federally chartered, private corporation.

Although the Association is privately owned, it pays Federal corporate income taxes and has stock that is actively traded on major equity exchanges, Fannie Mae operates as a public-purpose corporation under specific legislative and regulatory restrictions and controls. It is permitted to deal only in residential mortgages of the type and with a loan amount prescribed by law. HUD and the U.S. Treasury Department have authority to exercise regulatory control (general regulatory control in the case of HUD) over Fannie Mae's operations, programs and financing activities. Five of the eighteen members of the Association's board of directors are appointed by the President of the United States.

The primary mission of Fannie Mae is to provide liquidity for residential mortgages in the market and thereby to improve the distribution of investment capital available for financing the construction and sale of housing. Initially, it provided a secondary market for FHA and VA loans only, but in 1970 was authorized to purchase conventional mortgages.

The Association purchases residential mortgages secured by either single-family or multifamily structures and performs this function in two ways. First, Fannie Mae buys residential mortgages for its own portfolio with funds raised in the credit market through the sale of short-term notes and long-term bonds and debentures. Second, in 1981, Fannie Mae began a highly successful program for issuing mortgage-backed securities which are backed by pools of loans from its own portfolio, as well as mortgages pooled by lenders. In 1987, Fannie Mae began issuing real estate mortgage investment conduits (REMICs), taking advantage of the multiple class securities approach to achieve lowered yields. In mid-1987, Fannie Mae's portfolio contained $98 billion of mortgages and the Association had guaranteed $163 billion of mortgage-backed securities since the inception of those programs.

C. FEDERAL HOME LOAN MORTGAGE CORPORATION

Freddie Mac was created by Congress in 1970 to enhance the liquidity of mortgage investments and increase the availability of funds for mortgage lending by developing and maintaining a nationwide secondary market for conventional residential loans.

Chartered by Congress, Freddie Mac is taxed as a private corporation and has a three-member board of directors appointed by the President of the United States. These directors also serve as the Federal Home Loan Bank Board, which supervises the operations of the 12 Federal Home Loan Banks and all federally chartered savings institutions. Originally capitalized at $100 million through subscriptions of non-voting stock purchased by the Federal Home Loan Banks, Freddie Mac issued preferred stock in 1984. The Corporation's preferred stock may be held and traded only by federally chartered savings institutions.

Like Fannie Mae, Freddie Mac links mortgage lenders and the capital markets through its purchase and sales operations. Under the Corporation's purchase program (known as the Cash Program), Freddie Mac buys conventional single-family fixed-rate and adjustable rate loans, multifamily loans, and second mortgages, primarily from savings and loan institutions, but also from mortgage bankers, commercial banks and various other HUD-approved mortgagees. It then sells in the credit markets pass-through mortgage-backed securities, known as Participation Certificates (PCs), which represent undivided interests in the pool of underlying mortgage loans. The Corporation also operates a "Guarantor Program," under which approved lenders swap pools of mortgages for Freddie Mac guaranteed PCs which are then sold in the national capital markets.

Freddie Mac uses a mix of financing alternatives to accomplish its objectives but finances most of its mortgage acquisitions through the sale of PCs. It, too, issues multiple class securities and, in fact, pioneered in the introduction in 1983 of Collateralized Mortgage Obligations (CMOs), a debt obligation secured by mortgages but which provides investors with classes of different maturities, and hence a measure of call protection.

D. THE SECONDARY MARKET AND THE ROLE OF GINNIE MAE, FANNIE MAE AND FREDDIE MAC

Today, the secondary market plays a vitally important role in providing funds for residential mortgages, and Ginnie Mae, Fannie Mae, and Freddie Mac have been highly instrumental in making this possible.

As shown in Exhibit VII-1, during the past five years – 1982 through 1986 – nearly 80 percent of all residential mortgage loans eventually were sold in the secondary market. By selling mortgages in the secondary market, traditional and non-traditional mortgage lenders, large and small, replenish their supply of capital from which they can make new loans to qualified homebuyers.

This was not always so. In the early 1970s, the secondary market provided only about one-third of all mortgage credit – a proportion that increased, due largely to Fannie Mae, during the "credit crunch" that accompanied the 1974–75 recession. However, by the end of that decade when demand for mortgage credit was approaching a then all-time high, an expanding number of lenders turned to the secondary market with increasing frequency to augment their supply of lendable capital. By the end of the decade (1979), the ratio of home loans sold-to-originated peaked at 41 percent.

The start of the 1980s witnessed a significant shift toward increased use of the secondary market by a growing number of institutions for three reasons. First, investor concerns about double-digit inflation pushed mortgage interest rates to double-digit levels as the entire credit market experienced unprecedented volatility. Second, deregulation of the thrift and banking industries increased the need for these traditional mortgage lender groups to seek shorter term liquid investments. Third, the attempt by mortgage lenders to satisfy consumer demand for fixed-rate mortgages without increasing the risk of retaining these loans for portfolio convinced many traditional portfolio lenders to incorporate the secondary market in their business plans. As a result of these forces, the secondary market is now the pre-eminent source of mortgage credit.

The Federal and federally sponsored financial intermediaries have played a major role in this process. In fact, Ginnie Mae, Fannie Mae and Freddie Mac have become indispensable players in the mortgage market, as indicated by the data in Exhibit VII-2, which shows the market's growing reliance on these intermediaries. Over the past five years – 1982 through 1986 – Ginnie Mae, Fannie Mae and Freddie Mac loan purchase and mortgage-backed security programs added over $670 billion of credit to the housing market, an amount equal to 55 percent of the $1.2 trillion of new mortgage loans originated during the period. By bringing this capital to the mortgage

Exhibit VII-1

Growing Importance of the Secondary Mortgage Market

	Total Home Loan Originations	Total Home Loan Sales	Ratio of Sales to Originations
1970	35,587	14,191	39.9
1971	57,788	18,535	32.1
1972	75,864	24,129	31.8
1973	79,126	24,862	31.4
1974	67,509	23,111	34.2
1975	77,912	29,652	38.1
1976	113,788	40,935	36.0
1977	161,573	55,361	34.2
1978	185,036	67,758	36.6
1979	187,355	76,538	40.9
1980	131,377	64,641	49.2
1981	98,213	53,194	54.2
1982	96,951	100,571	103.7
1983	201,862	149,191	73.9
1984	203,705	135,683	66.6
1985	243,076	204,711	84.2
1986	454,050	377,270	83.1
	5-Year Averages		
72-76	82,839.8	28,537.8	34.4
77-81	146,290.3	59,737.8	40.8
82-86	239,928.8	193,486.8	80.6

Exhibit VII-2

Role of GNMA, FNMA & FHLMC

	GNMA MBSs	FNMA Portfolio	FNMA MBS	FNMA Total	FHLMC PCs	GNMA FNMA & FHLMC Total	Total Home Loan Originations	Ratio of Assets to Loan Originations
1970	452	4,777		4,777		5,229	35,587	14.7
1971	2,702	2,742		2,742	65	5,509	57,788	9.5
1972	2,662	2,596		2,596	494	5,752	75,864	7.6
1973	2,952	4,196		4,196	323	7,471	79,126	9.4
1974	4,553	4,746		4,746	46	9,345	67,509	13.8
1975	7,447	3,646		3,646	950	12,043	77,912	15.5
1976	13,764	3,367		3,367	1,360	18,491	113,788	16.3
1977	17,440	4,650		4,650	4,657	26,747	161,573	16.5
1978	15,358	12,301		12,301	6,412	34,071	185,036	18.4
1979	24,940	10,780		10,780	4,546	40,266	187,355	21.5
1980	20,647	8,074		8,074	2,526	31,247	131,377	23.8
1981	14,257	6,111	717	6,828	3,529	24,615	98,213	25.1
1982	16,011	15,106	13,969	29,075	24,169	69,256	96,951	71.4
1983	50,496	17,543	13,340	30,883	19,671	101,050	201,862	50.1
1984	27,857	16,073	13,547	29,620	18,682	76,158	203,705	37.4
1985	45,868	20,817	23,649	44,466	44,085	134,419	243,076	55.3
1986	98,169	29,499	60,566	90,065	101,111	289,345	454,050	63.7
				5-Year Averages				
72-76	6,276	3,710	0	3,710	635	10,620	82,840	12.8
77-81	18,528	8,383	143	8,527	4,334	31,389	152,791	20.5
82-86	47,680	19,808	25,014	44,822	41,544	134,046	239,925	55.9

market, Ginnie Mae, Fannie Mae and Freddie Mac served over 20 million homebuyers.

As also shown in Exhibit VII-2, the most recent five-year period is a sharp reversal from a decade ago when the secondary market and Ginnie Mae, Fannie Mae and Freddie Mac, in particular, were still in their infancy and when policy makers searched for ways to moderate cyclical fluctuations in housing finance. In those days, the availability of mortgage credit was tied almost exclusively to the vagaries of new savings deposits, and disintermediation of those deposits periodically rocked the housing market. The situation generated by these cyclical swings in the supply and cost of mortgage credit were succinctly summarized in a preface to a 1972 study commissioned by the Federal Reserve Board entitled, "Ways to Moderate Fluctuations in Housing Construction," which stated:

> At the time the project was launched (in early 1970), homebuilding and apartment construction had been severely depressed by the tight credit conditions prevailing earlier. This was not a unique experience. In fact, throughout the postwar period, residential construction has always declined appreciably when increases in competing demands for credit—together with limits on the aggregate supply of loanable funds—have curtailed available mortgage credit supplies to homebuyers.

Beyond helping to moderate the cyclical swings in the availability and cost of mortgage credit, Ginnie Mae, Fannie Mae, and Freddie Mac have the public purpose mission of assisting that segment of the market for which private financing is unavailable. Ginnie Mae fulfills this role by dealing only with FHA, VA or Farmers Home Administration insured or guaranteed mortgages which, because of the focus of these Federal housing programs, benefit the lower end of the homebuying spectrum that the private market cannot or does not serve.

Fannie Mae and Freddie Mac also primarily assist homebuyers of moderate means. This result is achieved by the limits set annually under a Congressionally mandated formula on the size of conventional loans Fannie Mae and Freddie Mac can purchase. The limits for a mortgage on a one-unit home were $133,250 and $153,100 in 1986 and 1987, respectively. These limits distinguish "conforming" (i.e., those below the limits) from "nonconforming" (i.e., those above the limits) loans. Data on the loans actually financed through Fannie Mae and Freddie Mac, however, show that the vast majority of Fannie Mae's and Freddie Mac's business involves loans well below the limits set by use of this formula.

For example, of the 1.3 million homebuyers whose loans were financed through Fannie Mae's operations in 1986, 30 percent had a mortgage of less than

$40,000 while 63 percent had a mortgage of less than $70,000. The average loan amount for all loans acquired by Fannie Mae in 1986 was only $62,000. These numbers compare to an average home purchase price of $113,500 and an average home loan amount of $78,000 in 1986, according to data compiled by the Federal Home Loan Bank Board.

E. THE FUTURE OF FANNIE MAE AND FREDDIE MAC

In spite of the performance of Fannie Mae and Freddie Mac in moderating the cyclical swings in the market, broadening the private sources of mortgage credit, and adding liquidity to the market, there are those who maintain that recent and ongoing market changes render their services less necessary and, hence, they should be phased down. HUD's recent report on Fannie Mae, for example, includes the following conclusions:

> If present trends in mortgage finance continue, the agency status of the (Fannie Mae) portfolio will no longer serve a useful public policy purpose.
>
> . . . now that Fannie Mae's portfolio operation appears to have little long-run or short-run effect on either the volume of mortgage credit or on mortgage interest rates. This suggests that the importance of agency status to the mortgage market has decreased to the point at which it is no longer justifiable in terms of public policy objectives.
>
> A Federal presence in the MBS market is no longer justified by the need to support the development of pass-through securities.

Similar sentiments have been expressed by others, most notably the Federal Home Loan Bank Board's Advisory Committee on Freddie Mac which has voiced support for scaling back on Freddie Mac's ties to the Federal government.

As a matter of sound public policy, MBA strongly believes that such conclusions are wrong and should not be pursued for five basic reasons.

1. The Leadership Role of Fannie Mae and Freddie Mac Increases the Efficiency of the Secondary Market

Fannie Mae and Freddie Mac have been at the forefront in developing the secondary market for conventional mortgages. Working together, they have standardized mortgage documentation, appraisal guidelines and underwriting procedures, and these efforts have made the secondary market for conventional loans safer and more efficient. They have led the drive for developing new mortgage products, including adjustable rate mortgages, 15-year loans and second mortgages, that contain safeguards for the consumer while at the same time providing acceptable returns to investors.

The key to the success of the conventional secondary mortgage market, however, rests with the mortgage-backed, pass-through securities piloted by Fannie Mae and Freddie Mac. Given the market's favorable reception to these instruments, Freddie Mac and Fannie Mae mortgage-backed securities are extremely liquid investments. It is estimated that for each $1.00 of MBS outstanding there is $5.00 of trading annually. As a result of the breadth and liquidity of this market, and the security associated with agency backing, interest rates on conventional loans sold through Fannie Mae and Freddie Mac MBSs are three-eighths percent or more below rates on loans sold through nonagency-related outlets.

The leadership role has continued. In 1983, Freddie Mac introduced multi-class collateralized mortgage obligations, the latest development in the securitization of the mortgage market. More recently, with the approval of HUD, Fannie Mae began to issue REMICs backed by conventional mortgages. Unlike any other REMICs that had been issued, Fannie Mae's offering was the first to provide for monthly accounting to investors of the prepayment experience on the underlying mortgage collateral. The absence of this data for other REMICs offerings has been viewed by investors as an impediment to the liquidity of privately issued REMICs, because of the difficulty it creates in accurately pricing the securities for trading proposes. Consequently, in this regard, Fannie Mae's leadership again set the standard for the industry, and this will further improve the market's performance.

2. Fannie Mae and Freddie Mac are Vital to Small- and Medium-Sized Lenders

Fannie Mae and Freddie Mac create a level playing field for all mortgage lenders which daily must compete with large conglomerate, multi-state lenders for available capital in the national and international credit markets. In 1986, for example, Fannie Mae and Freddie Mac purchased nearly $90.5 billion of residential mortgages from thrifts. Over half of these thrifts had assets of less than $500 million. There was a similar business relationship between Fannie Mae and Freddie Mac and small- and medium-sized mortgage bankers, commercial banks, and credit unions.

This has important implications for lenders and homebuyers alike. It means that Fannie Mae and Freddie Mac assure access to a reliable source of low-cost funds for housing for all mortgage lenders, regardless of size. In large metropolitan areas, it means that local institutions can effectively compete in their market area with large corporations. In small or rural areas, it can mean that lenders and, in turn, homebuyers will have mortgage funds available.

3. Fannie Mae and Freddie Mac Remain in the Market During Good Times and Bad Times

Fannie Mae and Freddie Mac are dedicated to housing. This sole purpose dedication assures that Fannie Mae and Freddie Mac, if properly equipped and with their links to the Federal government intact, will remain in the market through good times and bad times.

This was true even when other financial intermediaries had withdrawn from the market because volatile and rising interest rates or regional economic difficulties threatened their profits. Even now, Fannie Mae and Freddie Mac continue to buy investment quality mortgages from areas, such as the "oil patch" and "farm belt" states. It is estimated that Fannie Mae and Freddie Mac provided funds for nearly 360,000 homeowners and homebuyers last year in the Southwest. This accounted for approximately one-third of all housing funds that went into that region in 1986.

Available evidence suggests that other companies which lack Fannie Mae's and Freddie Mac's exclusive dedication to housing tend to retreat from the market when there is an onset of economic reversals. Moreover, sales of private multi-class MBSs dry up when arbitrage spreads narrow to squeeze the profit margins of the issuers. Fannie Mae and Freddie Mac, in contrast, continually have demonstrated their public purpose dedication to housing by providing a continuous market for mortgages.

4. At Present There Are No Viable Alternatives That Can Replace Fannie Mae and Freddie Mac

While new fully private participants and new instruments likely will become more important over time, this segment of the market simply has not demonstrated a capacity to provide for particularly those elements of need for which Freddie Mac and Fannie Mae primarily exist. In 1986, private conduits as a group packaged about $20 billion of new mortgages. In comparison, Fannie Mae and Freddie Mac combined to supply $192 billion in mortgage funds. The magnitude of this difference between the volume provided by the private conduits and the combined amount supplied by Fannie Mae and Freddie Mac clearly indicates that totally private firms cannot replace Fannie Mae and Freddie Mac. Furthermore, it suggests that any consideration of scaling back Fannie Mae and Freddie Mac on the hope that private players will fill the void, at best, is premature.

5. Most Important, Fannie Mae and Freddie Mac Benefit Consumers and Help Make Housing More Affordable.

The ultimate beneficiaries of Fannie Mae's and Freddie Mac's presence in the secondary market are homebuyers. The efficiency of, as well as the reduced risks associated with, these intermediaries' role in the secondary mortgage market lowers mortgage interest rates. No better evidence exists than a comparison of interest rates paid by consumers on conventional "conforming" loans (those eligible for agency purchase) and "nonconforming" mortgages. Homebuyers who borrow through Fannie Mae or Freddie Mac pay an interest rate of three-eighths of one percentage point or more lower than for a nonconforming loan. Scaling back of Fannie Mae's and Freddie Mac's role would lead unnecessarily to higher interest rates. It would raise interest costs especially for that vast group of moderate- and middle-income borrowers in the "conforming" market whose rates are kept low today by the direct presence of the Federal agencies in that market.

F. SPECIFIC POLICY RECOMMENDATIONS

The fact that our housing finance system works so well because of Ginnie Mae, Fannie Mae and Freddie Mac should not be justification for now sitting back. The need for a firm and constant Federal commitment to assuring a reliable flow of low-cost mortgage credit is as essential today, perhaps even more so, than it was over five decades ago when it first emerged as a goal of national housing policy.

Beyond affirming this Federal commitment to the secondary market agencies, the recommendations below, if adopted, would fine-tune the system. We have seen a growing segment of our citizens, especially younger Americans, who may never be able to afford to own a home. They bear witness to continuing obstacles in our mortgage credit system that we can and should strive to overcome.

1. Government National Mortgage Association

a. Guaranty authority. The Ginnie Mae MBS program is user-demand driven. Congress should not establish binding commitment activity ceilings for this program. Ginnie Mae should be free to operate the MBS program without restraint or limitation on the dollar amount of commitments the agency can grant each fiscal year to approved lenders for the issuance of guaranteed MBSs.

Ginnie Mae is a secondary guarantor and can only guarantee securities backed by mortgages insured or guaranteed by FHA, VA and the Farmers Home Administration. In the aggregate, actual issuances of Ginnie Mae MBSs cannot exceed the combined amount of mortgages insured or guaranteed by these primary insurers.

The market is disrupted, however, when Ginnie Mae approaches its commitment ceiling because of timing differences between when commitments are issued under the FHA or VA programs and when Ginnie Mae issues its commitments. Such disruptions are harmful to the market and hurt consumers. While estimates of program commitment activity may prove useful for planning purposes, no other purpose is served by translating such estimates into binding ceilings.

b. Staffing and budget authority. In recent years, the administration of Ginnie Mae has suffered from the departure of many skilled and experienced staff. Federal budget reductions have further aggravated the problem at a time when the program is growing, the volume of securities outstanding has risen, and the number of institutions approved to do business with Ginnie Mae is expanding.

> Ginnie Mae must be fully equipped with sufficient, well-trained staff to monitor its program and the performance of its approved issuers.

c. Technological improvement of Ginnie Mae programs. Since the inception of the Ginnie Mae MBS program, the securities markets have undergone significant technological changes, especially as a result of automation. Despite many of these changes, Federal security laws and regulations relating to electronic book-entry ownership of Ginnie Mae MBSs remain unchanged.

> There is a need for a thorough evaluation of securities laws and regulations aimed at allowing maximum use of technologically advanced systems. This is needed especially in light of Ginnie Mae's recent requirement for its guaranteed securities to be issued and held in the Mortgage Backed Securities Clearing Corporation, a privately owned and operated depository for Ginnie Mae securities.

Additionally, Ginnie Mae should modify its MBS programs to accommodate advanced automated systems now available in the credit markets for the purposes of security issuance and trading. In particular, Ginnie Mae should take steps to phase out the issuance of Ginnie Mae I securities and require all new securities to be issued under the technologically superior Ginnie Mae II program.

2. Federal National Mortgage Association

a. User fees. Housing policy aimed at assuring a reliable source of mortgage credit at the lowest possible cost to the consumer is inconsistent with the imposition of any new taxes or user fees on the operations of Fannie Mae beyond that which the Association currently pays by way of Federal corporate income taxes.

> Legislation should be enacted to prevent the imposition of any user fees on the Fannie Mae programs.

b. Permanent authority to issue REMICs. In April 1987, HUD approved Fannie Mae's plans to issue $15 billion of REMICs backed by conventional mortgages through July 1988, despite the full and unlimited authorization implicitly granted to Fannie Mae by the Tax Reform Act of 1986.

REMICs offer the promise of lowering mortgage rates for consumers. Fannie Mae has proven to be a leader in setting the standard for these new types of mortgage-related securities. As a matter of housing policy, Congress should confirm Fannie Mae's unlimited authority to issue REMICs.

c. Permanent authority to buy second mortgages. Fannie Mae's authority to buy and sell conventional second mortgage loans expires during 1987. The second mortgage program operated by Fannie Mae has proven to be a safe tool for consumers to finance their housing transactions. At a time when there is concern about the safety of home equity seconds, a type of mortgage loan Fannie Mae does not buy, it is important for Fannie Mae to be granted permanent authority to supply funds for second mortgages.

3. Federal Home Loan Mortgage Corporation

a. User fees. Already taxed as a corporation under Federal tax laws, Freddie Mac should not be required to pay any additional taxes or user fees beyond that which it currently does. To impose new taxes or fees would raise mortgage interest rates to all consumers unnecessarily.

b. Permanent authority to issue REMICs. As a matter of Federal housing policy, Freddie Mac, like Fannie Mae, should be confirmed as having permanent and unlimited authority to issue REMICs.

c. Permanent authority to buy second mortgages. Second mortgages have been proven to help consumers finance their home purchases, and, for this reason, Freddie Mac, like Fannie Mae, should have permanent authority to buy second mortgages.

d. Full devolution of stock ownership. There are in place unnecessary restrictions on ownership of the Corporation's stock. Freddie Mac's stock should be offered for sale to its entire diverse seller/servicer network, as well as the general public.

G. REGULATION AND TAX TREATMENT OF MORTGAGE-BACKED SECURITIES

Considerable progress has been made in recent years in updating Federal statutes relating to mortgage-backed securities. Recent amendments have recognized changes in financial market technology and have removed largely unintended hurdles to the use of the most efficient securitization vehicles as they emerge. Nevertheless, in this rapidly evolving field, further legislative opportunities to improve the regulatory environment can be identified.

MBA has consistently endorsed measures aimed at increasing the competitiveness and efficiency of the mortgage-related securities market, including the nonagency-related market. The measures suggested below are aimed at enhancing the role of that market through loosening of unnecessary restrictions rather than through limiting the role of the Federally related agencies.

1. Secondary Mortgage Market Enhancement Act of 1984 (SMMEA)

Although SMMEA does much to alleviate certain competitive burdens faced by private MBS issuers through amendments to the Securities Act of 1933 (1933 Act) and the Securities Exchange Act of 1934 (1934 Act), there remain certain areas under the Federal securities laws which can be further amended to expand the private secondary mortgage market. These areas include: (1) broadening the definition of "mortgage security" under the 1934 Act (thus entitling a wider range of private MBSs to certain exemptions under the 1934 Act), (2) amending the net capital rules applicable to broker/dealers of private MBSs, and (3) clarifying exemptions from SEC registration under the 1933 Act for private MBS transactions.

a. Definition of mortgage-related security. Section 101 of SMMEA amended Section 3(a) of the 1934 Act by defining a mortgage-related security as, in part, a:

> security that is rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization and represents ownership in one or more promissory notes . . . which are directly secured by a first lien on a single parcel of real estate . . .

The SMEEA definition of "mortgage-related security" should be amended to cover MBSs receiving one of the top four categories used by at least one nationally recognized rating organization.

The term "investment grade" is commonly interpreted to cover the top four categories by the nationally recognized rating firms, extending down to BBB under Standard and Poor's designations. Expansion of the eligible collateral for securitization to include the top four ratings would offer MBS investors a measured reassurance regarding the quality of the security while allowing the market sufficient flexibility to issue securities backed by a range of mortgages with varying degrees of investment quality.

b. Net capital rule. The Securities and Exchange Commission (SEC) has developed its net capital rule (Rule 15c3-1) under Section 15(c)(3) of the 1934 Act. The rule is designed to ensure that broker/dealers maintain adequate financial liquidity in the event of adverse market fluctuations.

In computing net capital, a broker/dealer must deduct from its net worth a prescribed percentage of the value of the securities carried in its accounts (a "haircut"). The haircut is based upon detailed analyses of market fluctuations over a period of years and the maturity of the securities. The net capital rule currently provides separate haircut schedules for a variety of securities, including government securities (i.e., "securities issued or guaranteed as to principal or interest by the United States or any agency thereof"). Haircuts for government-issued securities are set at lower percentages than for nongovernment securities.

Mortgage-backed securities which are issued by Fannie Mae and Freddie Mac and those which are guaranteed by Ginnie Mae are granted the same treatment under the SEC's net capital rules as are United States Treasury securities. This treatment permits dealers to carry sufficient amounts of these MBSs to provide a highly efficient government-related secondary market. The smaller amount of private MBSs which dealers may carry with a given commitment of capital has impeded the development of the secondary market for these securities.

We suggest, therefore, that the SEC explore appropriate ways to assure that private investment-grade MBSs (i.e., private MBSs receiving one of the four highest ratings by a nationally recognized statistical rating organization) are not burdened with excessive net capital requirements by the SEC. This would encourage more broker/dealers to carry larger amounts of private MBSs in their inventories and result in greater liquidity for these MBSs, which, in turn, should tend to lower interest rates to borrowers and help develop the private, nonagency-related market for mortgage-backed securities.

It is suggested also that Congress and the SEC explore ways to exempt from, or reduce the costs of, registration requirements under Section 5 of the 1933 Act to any private investment-grade MBS issues. Statistical ratings may indeed provide better protection to MBS investors, both small and institutional alike, than SEC registration because of the superior methodology of analysis developed by these agencies in rating private MBS issues. The significant cost savings from a registration exemption or some type of streamlined registration for investment grade MBSs could facilitate the further expansion of the fully private secondary mortgage market.

2. REMICs

The Tax Reform Act of 1986 includes the so-called REMICs provisions which very significantly enhance the efficiency of the issuance of multiple class MBSs. However, the legislation denies real estate investment trusts (REITs) the ability to participate in the use of the REMIC vehicle on an equal basis with other issuers.

The problem lies in the recognition of gain by a REIT resulting from the sale of regular interests through the REMIC vehicle. Under the tax code, Section 856(c)(4) provides that, in order to qualify for REIT status, no more than 30 percent of an entity's gross income may be derived from sales of a list of specified assets, which includes interests in mortgages held less than four years. Under many circumstances, the gain realized through the sale of REMIC interests would exceed 30 percent of the entity's gross income, thus disqualifying its status as a REIT. In addition, the prohibited transaction rules may apply to gains recognized on certain sales of interests in real estate mortgages. Because the issuance of securities through the REMIC vehicle is treated as an asset sale and not as a financing for tax purposes, REITs do not enjoy the same flexibility in issuing REMICs as they currently enjoy in issuing CMOs.

It is recommended that REITs be enabled to issue REMICs on a fully equal basis with other issuers.

VIII. The Delivery of Rental Housing

A. DEFINING THE NEED FOR RENTAL HOUSING

In 1983 (the last year for which detailed statistics are available), there were 29.95 million renter households (35 percent of total households). Of those households, 49 percent were adequately housed within their ability to pay for the units. That left 51 percent of all renter households with housing problems – either because the units were inadequate, the family was crowded or the household was paying more than 30 percent of income for rent (or some combination of those problems). The most pervasive problem for renters was the cost of housing – 33 percent were cost burdened. However, almost 14 percent lived in inadequate units (more than 4.1 million households). (See Chapter IV.)

This chapter provides a conceptual framework for defining the Federal government's role with respect to these two broad groups of renter households: Those which do not require assistance, and those which do require assistance. It goes on to define appropriate roles for state and local levels of government and for the private sector in the delivery of rental housing assistance.

B. ROLE OF THE FEDERAL GOVERNMENT IN UNASSISTED RENTAL HOUSING

The Federal government has a unique and vital role in the provision of adequate rental housing. For the large number of people who can afford housing produced by the private sector, the Federal government's role is simply to assure the smooth functioning of the private market. The Federal government has been providing this service adequately through FHA mortgage insurance programs (both single-family investor and multifamily programs), the secondary market programs of Fannie Mae, Freddie Mac and Ginnie Mae, and through generally favorable income tax laws (at least until the 1986 changes).

To assure a continued flow of private capital to rental housing and to assure the maximum utilization of the private sector in meeting the nation's rental housing needs, there are a number of specific legislative and regulatory refinements and changes in these areas that we recommend. These are:

1. Readjusting the income tax laws to realistically reflect the economics of investments in rental housing and congregate living quarters, particularly for lower income people. (See Chapter XI for details.)

2. Increasing the maximum mortgage amounts for FHA insured projects and indexing the mortgage amounts so that they are automatically increased in accordance with a formula tied to an appropriate cost index.

3. Adequately funding FHA to provide sufficient staff and resources for FHA to administer its programs. We are particularly concerned that FHA have adequate, trained staff at Headquarters and Field Offices to promptly process applications for full insurance for multifamily projects and to carry out its responsibilities under the multifamily co-insurance program.

4. Allowing the expansion of the purchase programs of Fannie Mae and Freddie Mac and otherwise encouraging the development of a secondary market for multifamily mortgages.

5. Encouraging FHA to maintain its role as an innovator in mortgage finance.

C. THE FEDERAL ROLE IN ASSISTED HOUSING

The Federal government has a commanding role to play in providing structure for and assuming a large portion of the expense of providing decent housing to those unable to afford it. The Federal government should reassert its leadership role in this area and reaffirm as a national goal that adopted by the Congress in 1949 of "a decent home and a suitable living environment for every American family." There are simply not sufficient financial resources at the state and local levels, distributed in such a way to make this goal a reality without consistent and substantial financial assistance from the Federal government.

The delivery of multifamily rental housing for low- and moderate-income persons has historically been stimulated by direct Federal intervention. Federal housing insurance, public housing and, more recently, rental assistance subsidies have provided the necessary impetus to spur the development of more than four million units nationwide. Additionally, tax code incentives have helped to generate the production of housing for low- and moderate-income persons. Tax-exempt bond programs, for example, have financed the development of approximately one million rental units nationwide. Exhibit VIII-1 displays the numbers of federally assisted housing units under the various programs over the past two decades. Exhibit VIII-2 displays the sharp decline in commitments in recent years.

As a direct result of Federal intervention, the delivery system has expanded over the years and become far more sophisticated. The system has produced an

Exhibit VIII-1

Housing Assistance Payments

The following tables show subsidy payments/units eligible for payment at the end of each fiscal year by subsidized housing programs.*

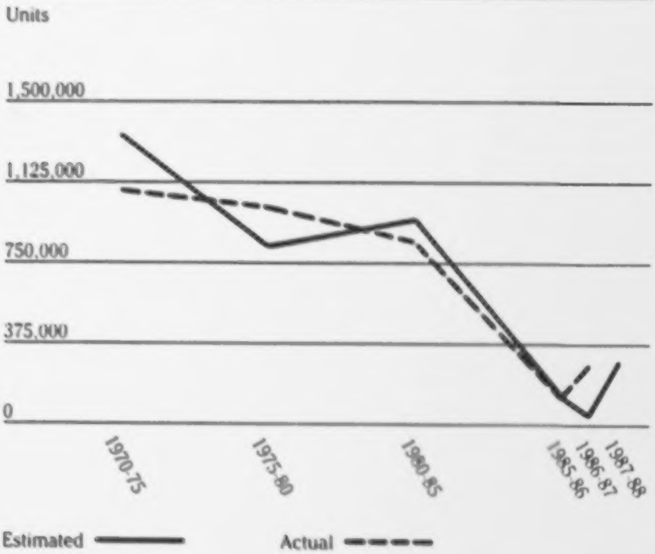
PROGRAM	Estimated [illegible]	Actual [illegible]	Estimated [illegible]	Actual [illegible]	Estimated [illegible]	Actual [illegible]	Estimated [illegible]	Actual [illegible]	Estimated [illegible]	Actual [illegible]	Estimated [illegible]	Current Estimate [illegible]	Estimated [illegible]
Low Income Housing Assistance (Sec. 8)	—	—	—	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Homeownership Assistance (Sec. 235)													
Original	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revised	—	—	—	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Restructured	—	—	—	—	—	—	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rent Supplement	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rental Housing Assistance (Sec. 236)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Public Housing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Less Units Receiving More Than One Subsidy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Net Units End of Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Appropriations to cover the actual payment requirements each year for the purpose of liquidating the contracts.

Source: Annual Congressional Justification Estimates, A Budget Office, U.S. Department of Housing and Urban Development.

Exhibit VIII-2

HUD Subsidized Housing Programs— Additions of Units Per Year to Units Eligible for Payment



Source: Annual Congressional Justification Estimates, U.S. Department of Housing and Urban Development educated constituency of professional and public citizens who have assumed greater amounts of responsibility within the delivery network.

With few exceptions, the delivery systems for assisted rental housing—including public housing authorities, state housing agencies, community development corporations as well as neighborhood housing service corporations, and private development entities specializing in low-income housing development—have all relied upon Federal assistance and support.

The so-called new federalism of the 1980s generated a series of program and policy directives with respect to housing with one principal aim: to redirect the responsibility for housing policy and programs to the state and local level. This fundamental shift in responsibility was premised upon a series of factors: (1) the ability to better identify specific housing problems and needs at the local level; (2) recognition of regional/local housing market differences; and (3) proximity of human resources at the local level to meet specific local needs. The effort to place an ever increasing amount of responsibility on public/private sector entities at the local level has also been fueled by an unquestioned need to reduce the current Federal deficit.

Although considerable responsibility has shifted to the state and local levels, it is not realistic to expect that delivery systems which have matured through direct Federal intervention can now "stand on their own." There are three major areas where a continuing Federal presence is essential.

1. Political Leadership

The Federal government since the late 1930s has been the primary initiator of housing programs. It has been a primary source of inspiration and political leadership in housing at a number of critical junctures in our history (i.e., the Depression, World War II, and the urban conflicts of the mid-sixties). The Federal government's response to these and other circumstances in our nation's history has created a legislative and programmatic framework wherein decent affordable housing has been made available to those of low- and moderate-income. The Federal government's responsibility to provide housing assistance to those most in need has been acknowledged by every administration, from the first term of Franklin Roosevelt and the programs of the New Deal on through the "safety net" concepts of the Reagan administration. Without question, a responsibility at the Federal level has been established. Federal leadership in housing is an established fact which cannot be avoided.

2. Resource Availability

State and local governments, nonprofits, and the private sector together cannot marshall in an equitable manner all of the resources, particularly financial resources, necessary to replace the Federal government in the delivery of housing. The Federal government has necessary resources and the ability to allocate them fairly across the country, which can be utilized to generate new housing opportunities including: tax revenues, debt capital, credit enhancements, and tax deferral mechanisms and credits.

The ability to use these resources to generate new housing supply and to maintain the existing supply of affordable housing in those areas where the needs are greatest surpasses local capacity to meet those needs. Said differently, state and local governments and the private sector have resources to meet housing needs, but local resources will tend not to be matched with local needs.

3. Tax Treatment of Housing

Defining the tax treatment of residential real estate is a primary but not exclusive role of the Federal government. Prior to the Tax Reform Act of 1986, there was a clear pro active Federal role in the context of encouraging new development of rental housing, particularly for those of low and moderate income.

The 1986 Tax Reform Act imposes stringent income targeting and other restrictions on the use of tax-exempt financing, and volume caps on multifamily industrial development bonds.

D. STATE AND LOCAL GOVERNMENT ROLES IN ASSISTED HOUSING

We say, above, that there are roles in the delivery of assisted housing that must be carried out at the Federal level. It is just as true that these are functions best performed by state and local levels of government.

First, there is a growing desire and will to meet and deal with housing problems at the local level. In part this has emerged as the Federal government has withdrawn from a commitment to housing; there has been a shift of leadership from the Federal to the state and local levels. In part the shift is a manifestation of direct participation in Federal housing programs, most notably the Community Development Block Grant Program. State and local governments in ever increasing numbers also are, on their own initiative, developing new program concepts to meet local market needs. State housing trust funds and state supported rental assistance programs are but two examples of an emerging focus on housing at the local level. Capacity building at the state and local level has been underway for more than twenty years if one uses involvement in Federal spending programs as a measure, longer if one looks at local involvement in health, building codes and zoning.

The poor, therefore, are best served by local housing authorities through the low rent public housing program. Because the supply of public housing is currently inadequate for the need, we suggest that a national housing policy should have a component for the construction or acquisition of new public housing units to serve this group as well as the repair and modernization of existing housing projects. In making this recommendation, we acknowledge the serious problems existing in the public housing program today. While we believe these problems are correctable, we leave it to groups more conversant with public housing to address these issues.

3. The Elderly and Handicapped

Elderly and handicapped individuals have special needs for housing specifically designed to accommodate to their physical condition. These range from group homes for the handicapped to board and care facilities for the elderly. The Federal government can do much for this group merely by providing FHA insurance programs designed for their needs. However, subsidies will be required for many of these households because they are often lower income.

We would support the continuation of all of the current programs for housing senior citizens, including the Section 202 program. But we believe consideration should be given to replacing direct loans under Section 202 with an interest subsidy program. Such a program would more directly involve the private sector in providing this housing and could be less costly to the government. (See also Chapter X.)

4. Low- to Moderate-Income Households

Households with low- to moderate-income (generally above poverty level, but below local medians) can be most effectively and most economically assisted through maximum use of the private sector. The private sector knows how to build, finance and manage housing in the most cost-effective and efficient manner. That expertise should be used to the maximum extent feasible when the target population primarily needs decent housing and does not have substantial other social problems. The private sector, however, needs assistance in providing housing at rents that low- to moderate-income families and individuals can afford. There are a number of programs now in use that, on a small scale, are available to assist in providing this housing.

a. Tax-exempt bonds are being used to finance the construction of projects where 20 percent of the units will be affordable to very low-income households. While in a few areas this program is workable, in most parts of the country the lower interest rate is not alone sufficient to produce feasible projects.

b. The low-income tax credit is being used on a small scale by developers to produce units for occupancy by low- to moderate-income families and individuals, but this program, too, has limitations and it is too new to be able to assess its impact completely.

c. Rental Housing Development Grants (HoDAGs) are producing some units for low- to moderate-income households but, again, the numbers are very small compared to the need.

Each of these programs should be reviewed and modified to make them feasible in more areas and conducive to larger volume production. However, even with the refinement and expansion of these programs, a national scale and more universally workable housing assistance program for low- to moderate-income families and individuals is needed. The first question to be addressed in designing such a program is the extent to which reliance should be placed on new versus existing housing.

C. BALANCING THE PRESERVATION OF EXISTING AND THE SUPPLY OF NEW HOUSING

In the final analysis, most people agree that a comprehensive housing policy needs to strike a balance between reliance on new and existing housing. But, for reasons set out below, we believe the policy principle should be:

> where local housing market conditions allow, housing policy should look first toward the use and preservation of the existing stock of housing and surrounding community facilities, before demolition and new construction is undertaken.

Existing housing is often where the people are who need help. It often has character, charm and economic value. In all, we should look to preserve the existing stock, and to use it as a vehicle for providing housing to those in need. All of the recent data indicate the primary problem of obtaining adequate housing is one of affordability. Where adequate units are available in the marketplace, but at rents not affordable to those seeking shelter, the most effective and least costly method of assistance is clearly an income-transfer program such as housing vouchers or rent certificates.

However, demand side programs, by themselves, will not address all of the Nation's housing needs. A recent report from the Congressional Research Service of the Library of Congress (No. 87–81F, January 30, 1987) found that:

> Using data from the 1982 and 1983 Metropolitan Area tapes of the Annual Housing Survey, this study uses simulated moves of households to determine whether the supply of standard quality, vacant rental units is sufficient to rehouse renter families living in unsatisfactory housing, when household size and number of bedrooms are considered. The study found that no housing market area had a sufficient supply , although the extent of the deficiency varies greatly. Less than half the variance was explained by differences in vacancy rates. The findings confirm the need to consider the characteristics of both the housing stock and the households in unsatisfactory housing in the diverse local housing areas throughout the country, when determining national housing policy (Exhibit IX-1).

These findings are reinforced by the record of the Section 8 Existing Housing Program. While experience differs among areas, and while preserving and making effective use of the existing stock is an essential element of housing policy, the President's Commission on Housing reported that as of 1982, over half of the Certificate holders were unable to find suitable housing within 60 days – with approximately three-fourths of the households with four or more children unable to find acceptable housing.

Even though a housing voucher program has been the primary focus of the current Administration, HUD Secretary Samuel Pierce has acknowledged repeatedly, before Congressional committees and in other public forums, the need for a supply-side component to any effective housing program. In testimony before the Subcommittee on Housing and Urban Affairs of the Senate in 1985, he stated that a Rand Corporation study "shows that there is no shortage of rental housing nationwide. I underscore the word nationwide, because they did find that there were some shortages in certain communities or localities." This is as true today as it was in 1985, if not more so.

D. DESIGNING A BROAD-BASED, LOW- TO MODERATE-INCOME HOUSING ASSISTANCE PROGRAM

In considering the need for Federal and federally supported housing programs for low- to moderate-income rental housing, we have focused on using existing concepts and programs. We took this approach for three basic reasons: (1) many of the current programs are basically sound and can be made more efficient and workable with only minor changes; (2) it is easier to develop a consensus on the value of and support for known programs than for newly created programs; and (3) any new program would require a lengthy start-up phase while guidelines are written, program

Exhibit IX-1

Renter Households Not Rehoused, by Family Size Selected Areas, 1982 or 1983

METROPOLITAN AREAS	(1) Not Rehoused	Persons in Household (Percent) (2) One	(3) Two	(4) Three or Four	(5) Five or Six	(6) Seven or More
Atlanta	3,100	0	0	7	40	53
Baltimore	5,100	0	0	5	25	70
Chicago	38,700	0	0	3	52	45
Cincinnati	5,700	0	0	0	75	25
Columbus	700	0	0	0	29	71
Denver	2,200	0	0	0	29	71
Hartford	2,600	0	0	7	69	24
Honolulu	9,400	0	0	18	48	34
Houston	23,400	0	0	4	57	39
Kansas City	1,200	0	0	0	23	77
Louisville	2,100	0	0	9	74	16
Miami	16,200	0	0	6	66	28
New Orleans	13,100	0	0	5	66	28
New York City	396,000	33	10	30	19	8
Passaic	15,500	30	10	32	22	7
Philadelphia	15,500	0	0	6	52	42
Portland	1,800	0	0	0	26	74
Rochester	3,700	27	0	8	32	32
Sacramento	2,900	0	0	0	32	68
St. Louis	6,200	0	0	4	55	41
San Antonio	7,000	0	0	7	45	49
San Bernardino	7,600	0	0	4	52	44
San Diego	10,700	0	0	9	57	34
San Fran-Oakland	24,300	25	0	14	44	17
Seattle-Everett	1,800	0	0	0	0	100

Note: Items may not add to 100 percent because of rounding.

Source: U.S. Bureau of the Census, Data Tapes, Metropolitan Areas, Annual Housing Survey, 1982 and 1983.

participants learn to use the program, and investors become comfortable enough to invest in such a program.

This does not mean, nor would we recommend, continuing or reviving existing statutory programs without change. Most of the programs have problems which we believe can be resolved without a major new program design. This report does not attempt to go into such detailed analysis and suggestions, but we are prepared to work with the Committees of the Congress and with the various agencies to improve and enhance their use.

Even with the refinement and expansion of existing programs, a national scale and more universally workable housing assistance program for low- to moderate-income families and individuals is needed. We recommend a program with the following characteristics:

1. New construction or rehabilitation of projects in which 20–25 percent of the units would be set aside for low-income occupancy.

2. The projects could be financed through FHA insured or conventional mortgages which could, in turn, be financed with tax-exempt bonds or a direct interest subsidy program.

3. Rental assistance payments (through the "Rental Supplement" or the "Section 8" programs) would be available for the low-income units so that tenants would have to pay no more than 30 percent of their income for rent.

4. The rent subsidies would be contracted for a 20-year term with the government having the option to renew the subsidy contracts at the end of 20 years if the units are still needed to house low-income households.

Such a program combines the best attributes of many of the former subsidized housing programs. It does not concentrate a large number of low-income households in single projects. The mix of incomes achieved in a 20–25 percent subsidized project is beneficial to tenants, landlords and neighborhoods. It is important that FHA insurance be available for these projects, particularly in the early stages of the program and in areas where state housing finance agencies are unwilling or unable to finance the projects without insurance. Also, the use of tax-exempt bonds, or interest subsidy payments, is important in order to lower the rents on unassisted units in the projects, which will allow occupancy by moderate-income families of the 75–80 percent nonsubsidized units. Such assistance is particularly needed in areas with very tight rental markets such as in suburban areas.

The rental assistance payments are necessary to allow occupancy by low-income households. The cost of construction and financing are such that even with rent skewing (i.e., charging higher rents for the unsubsidized units), rents would not be affordable to the households most in need without rental assistance. The major flaw in many of the housing programs of the '60s was the inability of tenants to afford rents which reflected increasing operating costs and the lack of a subsidy vehicle to pay them.

The government's option of renewing the contract on the assisted units to maintain low-income occupancy beyond the initial contract period avoids the problem of displacement at the end of 20 years without changing the original contract.

As mentioned earlier, the need for new production of assisted housing varies geographically and by unit size. New construction (and rehabilitation), because it is so expensive, should be limited to those cases where it is clearly demonstrated that an income transfer-type subsidy is insufficient. Local and state governments have a vital role in assessing their needs and determining the appropriate program for their jurisdictions.

E. BLOCK GRANTS FOR HOUSING

A variation and supplement to the above approach that perhaps deserves consideration is the idea of allocating a portion of Federal housing assistance funds to state or local governments in the form of block grants for housing. The funds would be allocated in accordance with a needs-based formula. States and localities could use the funds either through a means of established Federal programs or in programs of their own design; they would decide, set forth a "plan," and receive funding upon approval of their plan.

This approach goes the farthest in recognizing, on the one hand, that the Federal government can most equitably muster financial resources, but on the other that local and state officials often are in the best position to select, develop, and manage specific programs suited to the local environment. Eligible recipients would be, for each jurisdiction, a single public entity designated by the jurisdiction. Eligible program activities could include, in part, use of the funds allocated in the form of rental assistance contracts; direct loans; locally developed programs for interest buydowns; grants for construction and rehabilitation; group shelters and supporting services for the homeless, handicapped or children without families; code enforcement and relocation assistance; and residential counseling and other direct support services.

F. A "SUITABLE LIVING ENVIRONMENT"

1. Defining the Problem

Housing conditions and housing needs are not just numbers, and cannot be looked at meaningfully without also considering the surrounding physical environment.

Housing does not mean just bricks, mortar, and plasterboard. It means a place to live within what Congress has called a "suitable living environment." Housing should not be too far from employment opportunities, or from stores and other services, such as medical facilities. This environment usually means a neighborhood with local schools, churches, and recreational opportunities. It is a neighborhood protected by police and fire departments, reasonably safe from crime, with water and sewer and trash collection. For the vast majority of homeowners and renters, a suitable living environment is taken for granted. In certain urban areas, it is not.

Blighted urban areas, once called "slums," are characterized by abandoned housing, vacant shops, lack of jobs, and public grounds and buildings in disrepair. Many residents are often on welfare or social security. These neighborhoods are unsafe; few people walk about at night; there may be arson, vandalism, and drug use and dealing.

Some blighted urban areas have been blighted for more than a generation. In the roster of cities burned during the urban riots between 1965 to 1968 – Watts in Los Angeles, Detroit, parts of Washington, D.C., Newark – the devastated sections have shown only limited signs of revitalization. Downtown Washington and Los Angeles have all the office buildings a city could hope for, but their blighted areas are only marginally improved from the mid-1960s. Living in sections of the South Bronx, East St. Louis, Roxbury in Boston, or Brownsville in Brooklyn offers as little hope today as it did twenty years ago.

Government policy has acknowledged the fact that housing is inseparable from the areas where the housing is located. The Housing Act of 1949 sets as its objective:

> . . . the revitalization as soon as feasible of a decent home and suitable living environment for every American family, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the nation.

That Act authorized urban renewal efforts which leveled blighted urban areas, often with little assurance that something else would be built on the vacant land. In 1966, Congress enacted a "model cities" demonstration program. In 1967, President Johnson appointed a National Commission on Urban Problems, chaired by Senator Paul Douglas.

In 1968, the creation of a new cabinet-level department in the Federal Government was entitled "Urban Development" as well as "Housing." In 1974, the Housing and Community Development Act urged the "development of viable communities, by providing decent housing and a suitable living environment and expanding opportunities, principally for persons of low and moderate income."

The 1974 Act created the Community Development Block Grant program, replacing a half-dozen individual grant programs. It was followed in 1977 by authorization of Urban Development Action Grants (UDAG) and brief Federal attention to support for neighborhoods and for community activist groups as a way to revitalize the cities.

The current Administration has been unwilling to allocate new resources to creating a "suitable living environment" in blighted urban areas. Its primary initiative has been Enterprise Zones, a plan to designate certain blighted areas and provide tax incentives and promises of less government regulation in order to encourage the location of businesses in the zone. The initiative has been blocked by Congress on the Federal level, but a number of states have enacted enterprise zone legislation.

Why has there been so little national attention given in recent years to urban problems? Probable reasons include:

a. **Complexity of the problems.** Blighted urban areas have so many seemingly insolvable problems that governments are tempted to throw in the towel. Aging infrastructure, overcrowded transportation facilities, crime and drug abuse are among the many urban concerns that demand Federal, state and local funds. Older cities in particular are faced with the fact that so many of their residents are poor. In 1984, for example, one-seventh of New York City's population was on welfare and the percentage was higher in Boston.

Urban poverty has a racial context as well. In 1985, nationally, 32 percent of black persons were below the poverty level, about three times the ratio for whites. Although there have been radical changes to eliminate discrimination since the National Commission on Civil Disorders in 1968 concluded that the nation was "moving toward two societies, one black, one white – separate and unequal," the plight of residents in blighted urban areas remains an issue involving primarily black and Hispanic Americans.

Manufacturing firms were once the primary employers of urban workers, but manufacturing has declined significantly as a percentage of total employment. Blue-collar jobs and manufacturing facilities have moved south, west, or to the suburbs. Virtually no manufacturing firms moved to central city locations.

The service economy has replaced manufacturing as a chief source of employment in cities. The downtown business districts are thriving in many cities, but the jobs available are for the skilled and educated, not for the poorly educated residents. The blighted areas of the central cities provide the homes for those who cannot go elsewhere. In many of these areas, recent immigrants have joined the unemployed, choosing the cities because of the proximity of other recent immigrants and sufficient municipal or private support services so that no one need be without food or shelter.

b. **Belief in gentrification.** A second reason that may partially explain the lack of current government action to improve blighted areas is a hope by many that blighted areas of central cities will be gentrified. That awkward word covers such trends as the conversion of abandoned industrial buildings to small offices and apartments for the relatively affluent. "Yuppies" (young urban professionals) and "dinks" (double income, no kids) remodel urban houses when once they might have fled to the suburbs. Gentrification, as George Sternlieb points out in *Patterns of Development,* has been prevalent only in certain cities, such as Philadelphia, New York, Baltimore and Boston. In the industrialized frost-belt cities – Harrisburg, Akron, Buffalo, for example – there is little sign of revitalization through gentrification. In most cities, the white middle class has left the central city for the suburbs, and it has been followed by an increasing departure from the cities of the black middle class. The level of public school education in the central city is often a factor in the move to a more affluent suburban neighborhood.

Gentrification should be encouraged because, as Sternlieb says, "the poor need the rich." He also points out that there are a few cities, evidenced by massive new office buildings and vigorous central-city hotel business, where revitalization has helped make the city partially independent of state and Federal grants. These cities have the fiscal strength to provide social services for the poor. The smokestack cities, however, have not been revitalized or gentrified, and these cities are forced to cut social services for the poor because of fiscal problems.

c. **Budget cuts and the national mood.** A third reason for lack of enthusiasm for urban revitalization programs is the budget for Federal, state, and local governments. The United States has such a large Federal deficit that any new domestic spending programs have little chance of enactment. On the state and local levels, there are always dozens of competing needs for the use of local or state resources.

Finally, the mood of the nation seems to be on the other topics, not a concern about urban blight. Our conscience is spurred by the homeless; no longer by abandoned buildings. Many believe that, by keeping taxes low, the nation encourages general prosperity, and when the lot of the upper and middle class improve, some of that improvement will carry over to improve the life of those less fortunate.

2. Preservation and Rehabilitation

Providing a suitable living environment can often be assisted by housing programs themselves through an emphasis on rehabilitation. Rehabilitation can improve a neighborhood by removing vacant or deteriorated structures, which impact the value of an area, with an improved structure which fits into the fabric of the neighborhood and enhances the structures around it. Rehabilitation can often be completed in less time than new construction which minimizes, and can often even avoid, permanent displacement. To demolish existing structures and build new structures is time-consuming and causes displacement of families, disruption of a community and the loss of a neighborhood's cohesiveness.

Costs are also often lower with preservation and rehabilitation than with new construction, thus allowing more units to be produced with the same expenditures. An extensive cost-benefit analysis conducted by George Sternlieb and David Listokin of Rutgers University in 1973 found that "rehabilitation's initial costs are usually at least 20 percent cheaper than new construction's project cost outlay."

Rehabilitation should, thus, be a major housing vehicle in areas where suitable buildings exist and where neighborhoods can be improved by the rehabilitation. In addition to rehabilitation of structures for housing purposes, the rehabilitiation and preservation of historic structures – whether they are used for commercial, residential or public purposes – should be encouraged. Preservation of our nation's architectural heritage is an important element of preserving our history.

Preservation standards for historically significant structures should be maintained and enforced, but the Federal government should also provide incentives to the private sector to preserve and rehabilitate historically and architecturally significant structures.

Current Federal tax treatment represents an important incentive for preservation and the Federal government should continue such incentives.

3. Policy Suggestions

In accordance with general principles discussed above, the following suggestions reflect: a commitment of responsibility for improvement of blighted areas; a recognition that the level of Federal spending will not significantly increase; a reliance on state and local expertise; and a belief that tax benefits, because they are self-administering and do not require appropriations, can be the most effective method of support.

a. Enterprise Zones. Enterprise zones deserve a test on the national level. The number of zones should be limited, despite the difficulties that this will cause politically, in order to test the concept. Enterprise zone benefits should cover both commercial and residential rehabilitation. In addition to such local incentives as removal of property taxes for a specified period of time for new buildings, tax incentives can be explored for Federal excise taxes, state and local sales taxes, and expansion of the targeted jobs tax credit for businesses within the zones. The administration of enterprise zone incentives should be on a local level.

b. Block Grants and UDAG. The Community Development Block Grant program has been effective in many cities and extremely popular with most city governments because of the flexibility that communities have in determining where and how the money should be spent. Most of the problems with developing a new program have been worked out over the years, so there is a general understanding by the recipients of what is eligible and what is not, when public hearings are required, and what kind of environmental review is necessary. There seems to be no need to re-do this tested grant program; it should be continued.

UDAG has been under attack on the grounds that the program is not cost-effective in providing help for the most needy. An often cited example of waste is the fact that UDAG funds sometimes go for hotels in downtown areas. UDAG supporters cite the evidence that downtown hotels employ many low-income persons and provide significant tax revenues to the city.

There is merit to the main concept of the UDAG program. Distressed areas are targeted and public funds are leveraged with private funds. Nevertheless, there should be more emphasis on directing UDAG funds to areas in greatest need.

c. Investments in the public interest. An element of a national housing and community development policy should be "investments in the public interest." The term is intended to reflect investments which benefit low- and moderate-income persons and help create a "suitable living environment."

The Center of Corporate Public Involvement, which is operated by the American Council of Life Insurance and the Health Insurance Association of America, describes a social investment as one made specifically for socially desirable purposes that would not have otherwise been made under customary lending standards. These investments are intended as sound investments, but they are subject to unusual risk or they are made at below-market interest rates or they are of a nature (e.g., difficult to administer) that puts them beyond traditional lending practices. For example, a loan might be made to a minority-owned business that did not have sufficient funds or experience to justify a loan on normal lending standards; or a commitment might be made to purchase small (under $10,000) rehabilitation loans made to families in blighted areas.

A substantial number of public interest investments have been made by lenders and life insurance companies over the past two decades. It was primarily the urban riots of the late 1960s that persuaded President Johnson and, later, President Nixon, to endorse a life insurance industry urban investment program, which put $2 billion in mortgage loans in the inner city between 1968 and 1973.

In recent years, objections to public interest investing have been raised by the United States Department of Labor. The source of mortgage investment comes in a major part from the funds of pension plans. Section 401(a)(1) of the Employee Retirement Income Security Act (ERISA) specifies that pension plan fiduciaries must invest solely in the interest of pension plan participants and for the exclusive purpose of providing benefits to participants. Based upon these Department of Labor comments, a fiduciary who wishes to make a public interest mortgage may fear that he or she is violating ERISA, which could mean the loss of tax exemption for pension fund income or criminal penalties against the fiduciary.

It is reasonable for pension plan beneficiaries not to want all of their retirement funds invested at below-market interest rates or at unusual risk, despite the public interest. There is evidence based on surveys that pension plan beneficiaries, however, favor public interest investments and would not object if a relatively small amount of their funds were invested in the public interest.

ERISA should be amended to permit, where pension administrators desire, certain amounts of pension fund holdings to be designated for public interest investment.

For the effort to be successful, there must also be a commitment for a public interest program from the highest levels. With such a commitment, the program could work voluntarily. A large amount of experience, such as that of Neighborhood Housing Services, the Enterprise Foundation, and the Local Initiatives Support Corporation, confirms the idea that real estate development in distressed areas can work, but also that it requires a long-term commitment from a wide array of community leaders.

The basic rationale of investment in the public interest is to encourage the role of private enterprise in the task of creating a suitable living environment. Although it focuses on lending institutions, a commitment to revitalization of urban areas would bring in corporations (who use the low-income tax credit), developers, small-scale entrepreneurs, local community leaders, and many others.

X. Housing for the Elderly and Other Special Groups

Often the subject of housing for the elderly is treated as part of the discussion of low-income multifamily housing. While there certainly are substantial numbers of elderly people who, because of their economic or physical situation, need special assistance in achieving housing, the subject is much more diverse and includes the need to address single-family housing of people who are past their most productive work years.

A. DIMENSIONS OF THE ELDERLY HOUSING SITUATION

America, as we saw in Chapter III, is in the midst of a dramatic demographic revolution which will affect every aspect of our society. By 2030 there will be 64.5 million elderly people living in America, 21.2 percent of the total population, nearly double the current figure of 11.8 percent, creating new shelter needs (Exhibit X-1 and Exhibit X-2). For the next 20 years those needs will be focused on individuals in the 75–plus age group. A desire for a different lifestyle may generate considerable interest in new forms of retirement housing for those in this age group, but to date this has not been the case. Instead, up to now, a change in life's circumstances, usually deterioration of personal health or death of a spouse, has been the prime motive behind a decision to move to retirement housing. This is not to infer that 65-year-old couples will not move to retirement communities; obviously they do. But in the aggregate their numbers are not large.

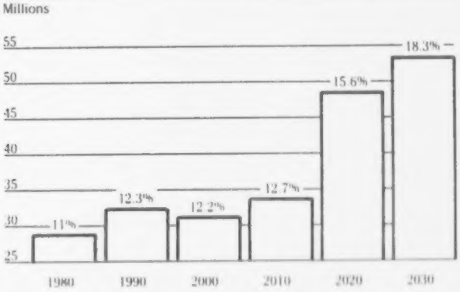
At present, about 70 percent of the elderly live in single-family homes, 65 percent own their homes outright, and another 19 percent rent housing. Only one in ten lives in either a retirement community or a senior citizen building (Exhibit X-3).

The segment of the elderly population easiest to serve with new forms of housing, the 65 to 75 age group, does not constitute a growing segment of the population, and exhibits some reluctance to move. Those segments of the elderly population which are growing rapidly and who we might think of as potentially most benefiting from a move to a retirement community – isolated elderly in remote locations without easy access to support services, a full range of health care facilities, or a socially supportive environment – may also be quite reluctant to move and, in addition, may be financially unable to move (Exhibit X-4).

There have been a number of reports that stress the growing affluence of the elderly. Much of that analysis has focused on the decline in the overall poverty rate among the elderly or on average income figures, but adequate attention has not always been given to variations in income levels by living status. Recent analysis under-

Exhibit X 1

Future U.S. Elderly Population



Number in population bar refers to the percent of the total population

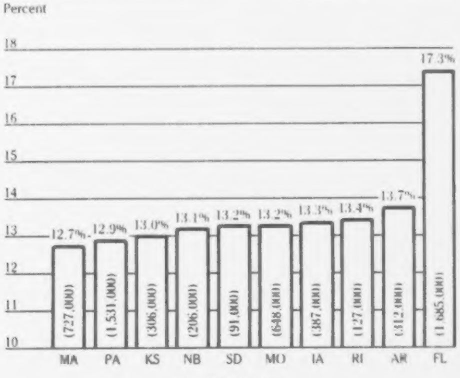
Projected Number of Elderly People

1980 = 25.5 Million	2000 = 31.8 Million	2020 = 45.1 Million
1990 = 29.8 Million	2010 = 34.8 Million	2030 = 55.0 Million

Source: *Housing for the Elderly*, Judith A. Hancock, ed., Center for Urban Policy Research, 1987, p. xxvi

Exhibit X 2

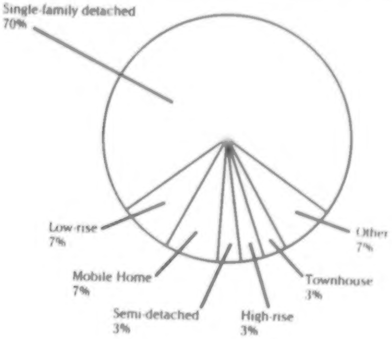
Top Ten States With Population Age 65 Years and Older, 1980



Source: *Housing for the Elderly*, Judith A. Hancock, ed., Center for Urban Policy Research, 1987, p. xxvii

Exhibit X-3

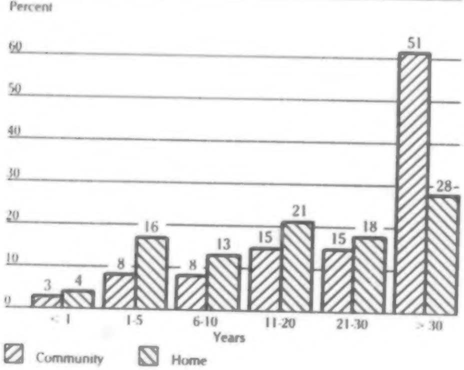
Type of Home— Persons Age 65 and Older



Source: *Housing for the Elderly*, Judith A. Hancock, ed., Center for Urban Policy Research, 1987, p. 6

Exhibit X-4

Length of Residence in Home and Community



Source: *Housing for the Elderly*, Judith A. Hancock, ed., Center for Urban Policy Research, 1987, p. 6

taken for the Commonwealth Fund indicates that in 1986, the average income for all elderly was $23,906, a figure that compares favorably with the population as a whole. However, the income of those living alone was only $14,090, while that of those living with others was $31,787. Only 4 percent of all elderly married couples were living in poverty, while 19 percent of those living alone were poor.

B. PROGRAM APPROACHES

For the elderly, or other groups, who are living in poverty and who are renters, the Federal government has programs of rent vouchers and rent supplements. No comparable program exists for people who would be eligible for assistance if they rented, but who own the dwelling unit in which they reside. The cost of occupancy for such individuals, especially those whose mortgages have been paid off or whose mortgages reflect purchase prices and interest rates of decades ago, may be less than occupancy of an adequate rental unit. Careful projections indicate that over the next 20 to 40 years, economic growth, together with increased pension, Social Security, and IRA benefits, will indeed increase the real income of the elderly and reduce the percentage living in poverty. However, among those living alone, high poverty levels are likely to persist.

Housing policies are needed which both encourage the creation of new forms of housing for the elderly and encourage the development of support systems designed to respond to the needs of those who can and want to "age in place." We perhaps need to focus simultaneously on two separate goals. First would be to create shelter and service complexes responsive to the health needs of a population whose longevity is accompanied by a gradual decline in physical well-being and to the desire for a socially supportive environment. But at the same time, the preference of the elderly to remain in their homes could be accepted and programs formulated to assist them in making their existing shelter more supportive of their physical needs.

Those actively involved in developing new retirement facilities separate the demand side of the market into three submarkets differentiated by different age and physical characteristics of the relevant populations. The American Association of Retired Persons characterizes the three groups as the go-go (healthy and highly mobile), slow-go (marginally healthy and mobile), and no-go (in declining health and mobility). To be complete, we should also recognize the variation in income levels within each of these groups.

At the present time, two principal approaches to the creation of new elderly housing facilities dominate the market place. One type, congregate housing, is a specially designed apartment complex that in addition to shelter provides, at a minimum, meals, and, more often, housekeeping, transportation and social activities for groups. The second, life-care communities, are elaborately designed elderly living complexes structured to address the problems of both shelter and health care. Typically, meals, housekeeping and medical care are available for a fee.

Despite a substantial cutback in numbers of units, the types of projects insured by FHA have changed to reflect current thinking about the type of retirement complex that best responds to current market pressures and fills a social need. The two new programs which reflect current thinking are insurance programs: retirement service centers insured under Section 221(d)(4) and board and care homes insured under Section 232. These programs permit both tax-exempt bond and Ginnie Mae mortgage-backed security funding. (See also Chapter IX.)

Both these programs reflect a progression in Federal government involvement from programs that offered direct loans or loan insurance for shelter only; to those that insured projects which offered shelter plus meals and personal services on a voluntary basis; to those which package shelter, meals and services, including limited health services, into a monthly fee.

Because of the newness of the board and care program, little can be said about it other than that it may encourage nursing home operators to diversify their product, particularly in areas where it is difficult or impossible to obtain Certificates of Need for nursing homes or intermediate care facilities. Due to the high rental rates required to make these projects feasible, the program as currently constituted cannot create large-scale opportunities for those living alone on low incomes. Less certain is its eventual role in fostering the development of options for middle-income retirees.

C. LOOK AHEAD: DEFINING ELDERLY HOUSING PROGRAMS FOR THE FUTURE

National housing policy for the elderly is, at best, ill-defined. Programs directed at stimulating housing for the low-income elderly have been drastically reduced. Programs to build housing for the middle-income elderly have not been well-defined. No single Federal program can either insure loans or engage in direct lending to facilitate the development of a program that incorporates the shelter/health care features of a life-care community.

While Federal programs have focused on congregate housing, recent analytical work on the living patterns of the elderly are consistent in their findings that individual homeownership is the preferred choice of older people. The same research also reveals that a significant portion of older Americans have what has been termed a "dwelling-use problem;" that is to say, a functional impairment due to a physical disability or health problem indicates the need for home modifications or support services. In many instances, the individuals will neither move to a more appropriate setting nor physically alter their current surroundings. The relative importance of income constraints, personal preference or actual lack of alternatives in blocking those changes is not known. What we do know is that often the elderly person's housing is not compatible with his/her needs. The recent AARP survey of the elderly attempted to identify what older people would have done had they anticipated having to adjust to the changing circumstances associated with longevity. The results indicate that a relatively small, but significant, proportion of the homeowning population would consider such options as obtaining a second mortgage, modifying a home to include a second apartment, or entering into a reverse annuity mortgage agreement. About half of those surveyed would consider moving to a life care or congregate housing facility.

Because housing is the largest single asset of the retired population and the aggregate amount of home equity held by those 65 or over is estimated to be $600-800 billion, economists and policy analysts have been eager to find ways of turning those assets into spendable income. Moreover, because of the pervasiveness of homeownership among the elderly, those living alone and those living in poverty often have some equity value in their homes.

Recent attention has focused on making use of the equity in a home as a source of income support, through a reverse annuity mortgage. In a reverse annuity mortgage, the homeowner would take a mortgage on his/her home using the proceeds to purchase an annuity. The difference between the mortgage payments and annuity payouts is net income to the recipient. There are a number of ways to structure such instruments so that repayment is deferred so long as the individual continues to reside in the home (Exhibit X-5).

The difficulty of the concept and the complexity of the transaction have combined to limit the number of completed transactions to about 1,000 nationally. Efforts are underway to experiment with demonstration programs of FHA mortgage insurance for reverse annuity mortgages, but no widely accepted financing mechanism now exists for elderly homeowners to access their home equity.

A major effort is called for to address the challenges of housing for the elderly. With financing playing such a pivotal role, the Federal mortgage credit programs are ideally positioned to be the key to meeting the challenge, and the FHA has already begun to do so. Even though the expanded market for housing for the elderly is in the future, the challenge to respond to those who are now already elderly is in the present.

Exhibit X-5

Effect of Reverse Mortgage Payments on Poverty Rates of Elderly Homeowners

By Household	Percent of official poverty rate*	Poverty rate after reverse mortgage payment	Percent in reduction poverty rate
Singles and couples	15.0	6.3	58
Singles	21.7	8.2	62
aged 65 to 74	17.9	9.2	49
aged 75 or more	25.9	7.1	73
Couples	7.6	4.2	45
head aged 65 to 74	5.8	3.9	33
head aged 75 or more	10.1	4.7	53

*This rate applies to singles and couples who own single-family homes.

Source: "The National Potential of Home Equity Conversion," Bruce Jacobs, *The Gerontologist*, vol. 26, no. 5, 1986, p. 498.

D. RECOMMENDATIONS

The issues raised in housing the elderly are varied and complex. To begin to address them, national housing policy should, at least:

1. Accelerate the adoption and implementation of the demonstration project of FHA mortgage insurance for reverse annuity mortgages.

2. Re-examine and expand HUD's congregate care program, taking into account the need to coordinate board and care with housing and shelter.

3. Explore establishment of a program of housing vouchers for low-income, frail elderly, and handicapped who already own and occupy their homes but who need assistance to remain.

4. Convene a task force to address the financing needs of housing for the elderly and other special groups, including standardization and the secondary market. For home equity conversion, the task force would strive for a financing mechanism that would include the Federal insurance and the Federal secondary market agencies and would provide the elderly with certainty and simplicity so that it could be widely acceptable to investors and the elderly alike. In this context, the task force would be made up of representatives from private enterprise and from the government mortgage credit programs.

E. HOUSING FOR THE HANDICAPPED

Over 30 million Americans suffer from some sort of physical mobility problem, over 11 million have visual impairments, and 22 million have hearing impairments (these figures are not mutually exclusive). These persons and the frail elderly have special housing needs which require either physical adaptations to their current housing or support services in conjunction with housing.

Two Federal programs have encouraged the construction of housing for the handicapped and elderly. One, HUD Section 202, provides direct loans at subsidized rates to nonprofit organizations for the construction of housing for low-income elderly and handicapped persons. The Section 8 rental assistance program is used in conjunction with this program. Funding for this program has been cut substantially under the current Administration's objective of addressing housing needs primarily through a rental housing voucher program rather than housing construction. Yet, a rent subsidy alone cannot meet the special needs of the frail elderly and handicapped. The additional assistance of block grant funds that pay for housing adaptations is one way in which these needs can be addressed.

Another response to the special housing needs of the frail elderly and handicapped, new construction that includes special services and facilities, has been explored under HUD's Congregate Housing Services Program (CHSP). The program, implemented in 1978, is designed to test the cost-effectiveness of providing support services for the elderly and handicapped in order to prevent or delay unnecessary institutionalization. A study released in 1987 by the House Subcommittee on Housing and Community Development found that 13 percent of those who received CHSP services required institutionalization, compared to 24 percent of the control group who did not receive the services. This program should be continued and expanded.

Since 1948, the VA has provided one-time grants of up to $35,500, currently, to veterans with service-connected disabilities to purchase or construct a home which is adapted to their needs or to adapt an existing home. The grant cannot exceed one-half the cost of the home and the recipient must comply with the VA minimum requirements for adapting the home. If there is money left over, it can be applied toward payments on the mortgage principal. In FY 1986, 430 veterans benefitted from the program. A smaller grant of up to $6,000 is offered to veterans who are blind or have lost one or both arms. Sixty-nine grants were awarded to veterans in FY 1986 to adapt their home under this program.

Currently, building codes for housing for the handicapped vary among states, which can exceed the national standard set in 1960, revised in 1968, by the American National Standards Institute (ANSI). In addition, there are two Federal codes which follow the ANSI standard – the Uniform Federal Accessability Standard (UFAS) and the Architectural and Transportation Barriers Compliance Board (ATBCB) – yet which also differ. The existence of several levels of standards has made compliance difficult and has impeded the development and adaptation of housing for the handicapped. MBA recommends adoption of a single, uniform standard.

F. HOUSING FOR LARGE FAMILIES

Another group with special housing needs is families – especially low-income families – with five or more persons. In January 1987, the Congressional Research Service reported on a computer simulation study which matched inadequately housed families with vacant units in selected suburban and city areas. The pattern that emerged was that even assuming a theoretically efficient matching of available housing stock with need, the large families were more difficult to absorb. Generally, in the study, the larger the family, the less adequate was the current housing stock.

This same report notes the record of the HUD Section 8 Certificate program, that approximately three-quarters of households with four or more children were unable to use the certificate to find adequate housing, compared with a general average of one-half.

The stock of one- to four-unit homes, which has a proportionately greater number of units with three, four, and five bedrooms than apartment units have, is a significant source of housing for large, especially low- and moderate-income, families. The rental housing portion of FHA home mortgage insurance programs (the "investor loan program") represents between 10 and 15 percent of the FHA home mortgage program. Defaults are disproportionately higher on investor loans than on mortgages on owner-occupied homes; but such an observation suggests a more cautious and carefully operated program, not its termination. The FHA investor loan insurance program is a practical means for at least assuring the availability of financing on reasonable terms for rental housing for large families who can afford moderate market rents. (See also Chapter VI.)

XI. The Financial Regulatory and Tax Environment

Regulation of the financial environment and the Federal tax system can dramatically affect the cost and availability of housing and related services. The impact of regulation (or lack of regulation) on housing usually is indirect as in the case of capital guidelines for banks and bank holding companies which own mortgage companies. In the case of taxes, the Federal income tax has throughout its life been a direct tool of public policy in the housing arena.

Except where government intervention is warranted by needs for consumer interaction or to assure an efficient market, the market place should be allowed to determine what services are produced, and how and at what price they are delivered. There is an opportunity in today's financial environment for certain activities to be deregulated and in other situations we will recommend that issues be clarified.

A. LAWS THREATENING CAPITAL FLOWS, PROFITABILITY OF MORTGAGE BANKING AFFILIATES

There are three areas of concern: (1) preservation of current bank regulatory treatment including purchased or acquired mortgage servicing rights within the definition of primary capital for capital adequacy purposes; (2) elimination of the current prohibition against permitting loan production offices of national banks to approve loans; and (3) elimination of unnecessary Glass-Steagall restrictions.

1. Primary Capital Definition

After a mortgage loan closes, the mortgagee who services the loan (i.e., passes through principal and interest to investors, establishes and collects escrow payments, pays taxes and mortgage insurance, etc.) has a contractual right to a servicing fee of .0025 to .0044 of the unpaid balance per month. Instead of setting up origination offices in numerous locations, banks have utilized the practice of purchasing servicing rights from mortgage loan originators with whom they have correspondent relationships.

Current Federal Reserve System (FED), Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) guidelines regard mortgage servicing rights that have been purchased or acquired to be included in the determination of primary capital. Up to now the bank regulatory agencies have unquestionably regarded these servicing rights as a valuable off-balance sheet asset with a reasonably predictable income stream providing a potential buffer for bank losses. Banks were encouraged by regulators to expand their mortgage servicing portfolios to increase fee-based income and therefore lessen the dependency on interest income. Moreover, there is a well-developed liquid market for servicing rights which gives management the flexibility to sell them if needed to obtain capital or to absorb losses.

Unfortunately, in the interest of administrative simplicity and having parallel standards with foreign bank regulators, the U.S. bank regulators have proposed to exclude purchased or acquired mortgage servicing rights from the definition of primary capital. If the proposal becomes effective, a banking corporation would be required to add an additional dollar of capital for each new dollar of cost of mortgage servicing acquired. Thus, banking organizations will be forced into deciding whether capital should be allocated to the purchase of servicing or other investments (e.g., the acquisition of banks or other eligible enterprises). Banks are in the business of using the money of others to make money. It is pretty much a foregone conclusion that a banking organization will choose to employ its capital in areas other than the acquisition of mortgage servicing since the ability to leverage (i.e., purchase $1 of servicing and adding only 5.5 cents of capital where the minimum capital ratio requirement is 5.5 percent) the acquisition will have been lost. There will be an array of other investment opportunities to the banking organization with potential for leveraging which the banking organization will prefer over the acquisition of mortgage servicing rights.

Bank regulators are aware of the valuable contribution of mortgage servicing income to banking organizations. They have indicated that they will argue for preserving this contribution in the regulations. Nevertheless, they seem to indicate that the desire to have comparable international standards may be a more compelling concern, in the overall scheme of things, than keeping banks in the mortgage servicing business.

What does all this mean for mortgage banking and other financial affiliates? First, it means that banking organizations will be deprived of a steady and reliable fee-based income stream. This, in turn, will make bank earnings more volatile by increasing the organization's dependency on interest and other fee income. Greater earnings volatility will tend to depress stock values, which, in turn, will increase the organization's cost of capital, making expansion and diversification of risk even more difficult.

Second, the regulatory change would provide a competitive advantage to foreign banking organizations. In many instances, foreign bank regulations are more permissive than those in the U.S.; therefore, foreign banks already have a competitive advantage. Under the proposal, U.S. banks would be penalized for having developed an efficient, highly liquid market for mortgage servicing rights which is, in part, an outgrowth of the U.S. development of a secondary mortgage market.

Third, the decrease in participation in mortgage banking by banking organizations will decrease competition among lenders and tend to increase the cost of mortgage loans. It is a basic axiom of the concept of a free market that there should be as many providers of a commodity as is practical.

Housing policy for the 1990s and beyond should be one which encourages the greatest competition among lenders and does not result in competitive advantages based on ownership type or whether a firm is subject to U.S. or foreign regulation. The change in the definition of primary capital could have an impact on competition, result in structural changes in the banking sector, provide competitive advantages to foreign institutions and affect the cost of credit to mortgage borrowers. To prevent the inappropriate redefinition of bank capital in a manner adverse to housing is an appropriate area in which Congress should intervene.

It is recommended that Congress express the intent that mortgage servicing rights, whether purchased or acquired, be included within the definition of primary capital for purposes of determining capital adequacy.

2. Restrictions On Loan Production Office Loan Approvals

The McFadden Act, passed in 1927, as amended by the Banking Act of 1933, allows only limited interstate branching subject to the laws of a national bank's home state. By accepting the state boundaries imposed by state banking authorities, national banks are effectively limited in the ability to branch within a state or across state lines. This law was passed in an era when national banks had been operating at a distinct competitive disadvantage compared to state-chartered banks because the National Banking Act of 1864 had been interpreted to prohibit branching. The McFadden Act permitted branching by national banks but subjected this power to state control. Prior to the passage of the Act, from 1836 until 1927, there were no branches of nationally chartered banks.

Banking institutions have found a variety of ways to circumvent the geographic restrictions imposed by the McFadden Act. For example, the Bank Holding Company Act permits banks to organize their activities under a holding company structure, with subsidiaries of the holding company engaging in both banking and other activities permitted by Federal Reserve regulation or administrative decisions.

Most nonbanking activities (those which do not involve both deposit-taking and lending) are not subject to any geographic restriction. Loan production offices are not considered to be "branches," so long as the loans they originate are approved and made at the main office, branch office, or a subsidiary office on the premises or contiguous to the foregoing.

The efforts to get around the restrictions of the McFadden Act are often at the expense of efficient operations. For this reason, and because the concerns that led to enactment of the McFadden Act no longer seem valid, many have argued that the branching restrictions effectively imposed by the McFadden Act should be repealed, or at least that legislation phasing out its prohibitions should be enacted. Indeed, with more and more states passing legislation permitting banks and bank holding companies in surrounding states to open banks in their territories, the geographic and operational restrictions of the McFadden Act are becoming increasingly irrelevant and out-of-date.

A specific example of how the law affects the way mortgage loans are provided by national banks is found in the Act at 12 U.S.C. 36(f). Under this provision a branch is defined "to include any branch bank, branch office, branch agency, additional office, or any branch place of business . . . at which deposits are received, or checks paid, or money lent." In an interpretive ruling at 12 CFR 7.7380 (b) the Comptroller of the Currency applied this statutory language in the context of loan production offices. The Comptroller concluded that:

> (b) Origination of loans by employees or agents of a national bank or of a subsidiary corporation at locations other than the main office or a branch office of the bank does not violate 12 U.S.C. 36 and 81: Provided, that the loans are approved and made at the main office or a branch office of the subsidiary located on the premises of, or contiguous to, the main office or branch office of the bank.

The impact of this regulatory provision for mortgage banking affiliates of national banks is that a mortgage banking unit at a remote location (i.e., not at the main office, branch office, or subsidiary's office on the premises of, or contiguous to, a main office or branch) cannot approve loans that it originates. The loans have to be approved by an officer of the bank at one of the sanctioned locations.

The rule is cumbersome, costly, and outdated and encourages the creation of bank-affiliate ownership structures designed to legally avoid the application of the rule. To avoid being subject to this cumbersome approval process, national banks have transferred their directly owned mortgage banking subsidiaries to their holding companies even though it might have been advantageous to remain a mortgage company directly owned by the national bank. It is a meaningless gesture to have the bank approve each and every loan of a loan production office. In many instances, the bank official approving the loan may have less of an understanding of mortgage credit underwriting than the officials at the loan production office. Thus, the rule has likely produced inefficiencies contributing to the cost of mortgage loan processing and restricted the growth of national bank-owned affiliates, which in turn, tends to diminish competition.

MBA has taken no position on the larger issue of interstate banking. However, we strongly favor amendment of the McFadden Act to permit national banks to establish full service residential real estate loan offices within any state, and thus eliminate the need to have a fictional approval process for loan production offices.

B. LAWS THREATENING INVESTOR CONFIDENCE IN MORTGAGES

Here our analysis turns to the impact of environmental hazards on the cost and availability of mortgage credit.

An increasing number of states have enacted laws allowing super-liens to attach to mortgaged property to finance cleanup where pollution has been discovered. While there can be no sympathy for those who pollute the environment, the lender/investor is usually the innocent party involved. It is not hard to imagine a situation where cleanup costs amount to several times the amount of the mortgage loan. As these laws proliferate in number throughout the country we can expect major investors in mortgages like Fannie Mae and Freddie Mac to begin to avoid purchasing mortgages in these areas. This undercuts one of the major benefits of a secondary mortgage market: the national free flow of mortgage credit.

In no case should the burden of cleaning up or remedying a hazard fall on the shoulders of innocent investors. There is no way investors can estimate the size of the risk involved and therefore, no way investors can adequately protect against this type of risk. Thus, investors are forced to not do business in states that create this type of risk.

It is recommended that Congress consider appropriate methods to preempt state super-lien laws which apply to mortgages. Such measures should aim to keep mortgage credit flowing to all areas based on need and demand for mortgage credit and spread the cost of cleaning up hazards over a large number of units.

C. LAWS AFFECTING COMPETITION AND THE COST OF MORTGAGE FINANCE

Opportunities exist for increasing competition, and thereby reducing costs of services in real estate transactions. Additionally, confusion and paper costs associated with truth-in-lending, real estate transactions, and interest reporting requirements can be addressed legislatively.

1. Truth-in-Lending Act (TIL)

TIL requires mortgage lenders to quote the Annual Percentage Rate (APR) over the telephone. However, prospective applicants typically do not shop based on the APR, which they usually do not understand. Prospective applicants want to know "the interest rate and total points," not the APR. The APR is more likely to confuse borrowers than to help them. On the other hand, a quote that discloses the "rate and points" gives the prospective borrower a clearer picture of the amount of cash required at closing and the amount of monthly payment on the mortgage.

TIL, therefore, should be amended to permit lenders to make telephone quotes or advertise quotes of interest rates and total points with the stated proviso that the APRs may differ.

2. Glass-Steagall Act

From the leadership of the Senate Banking Committee to the upper levels of the Treasury Department, it appears consensus is emerging that it is time to repeal or rewrite the Banking Act of 1933 (Glass-Steagall Act). Without attempting to evaluate the entire set of issues, we nevertheless see one clear issue that relates to housing policy.

Section 16 of the Glass-Steagall Act generally prohibits national banks from engaging in the underwriting of corporate securities. Exemptions are provided for the underwriting by banks of government securities, including government MBSs, because of the low risks associated with those securities due to their explicit or implicit Federal government backing.

U.S. banks may also underwrite privately issued securities abroad and are leaders in the Eurobond markets. Ironically, what they can do under current law is somewhat inconsistent with what they cannot do. For example, a bank may purchase whole loans from an originator, then issue and underwrite its own MBS collateralized by those mortgages, but if the originator itself issued the identical MBS collateralized by those same mortgage loans, then the bank would be prohibited from underwriting the offering.

The underwriting of privately issued MBSs is exceptionally concentrated among a relatively few investment banking firms. Permitting bank and thrift holding company affiliates to underwrite privately issued MBSs would significantly increase the number of competitors in the marketplace, and should thereby lead to lower underwriting costs and more investors at the local or regional level. This should create greater liquidity for the secondary mortgage market and perhaps somewhat lower interest rates for homebuyers. The increased number of participants underwriting MBSs, both on local and national levels, would help ensure that mortgage credit is available in all parts of the country, thus increasing its availability as well as affordability. It would be another step toward expanding the private nonagency-related market for mortgage securities.

It is recommended that bank and thrift holding company affiliates be authorized to underwrite a full range of privately issued, nonagency-related mortgage-backed securities.

D. FEDERAL TAX POLICY

A comprehensive national housing policy is incomplete without giving consideration to taxation and specific tax issues that affect homeownership and rental affordability, a major factor in the ability to afford a home. Tax laws historically have also been employed as incentives to investors to build and own rental housing, especially for lower income families and individuals.

1. The Tax Reform Act of 1986

While the Tax Reform Act of 1986 has been perceived to make real estate somewhat less attractive to commercial investors, the Act does provide for the continuation of certain tax laws that help to encourage homeownership for individuals:

a. Mortgage interest (generally) for primary and secondary residences remains deductible.

b. Real property taxes remain fully deductible.

c. The deferral of taxation on gains from a principal residence sale (if an equal or higher priced residence is purchased within two years) remains in effect.

d. The one-time exclusion of gains from a principal residence sales for taxpayers over 55 remains in effect.

The Act also included an extremely powerful tool for generating funds for housing through REMICs. The new legislation overcomes the obstacles of CMOs in providing for multiple class securities. This is an example of legislation that allows for the full integration of the home mortgage and national capital markets.

The Tax Reform Act of 1986 made the positive changes that will help to encourage investor participation in certain types of programs but included other provisions that discourage participation. For example, a new tax credit was established that will aid investors in low-income multifamily rental housing; however, new restrictions were placed on the volume of tax-exempt bonds a state may issue and on the number and income requirements of low-income households in a given project, which may have the effect of eliminating the production of the low- and moderate-income units. Other changes to the tax code that will seriously affect construction of rental housing are: the investment interest limitations, the changes in depreciation (period and amortization method), the repeal of the capital gains exclusion, the at-risk rules, and the passive loss rules.

Mortgage revenue bonds and mortgage credit certificates are also examples of tax incentives that are used to encourage funds for low- and moderate-income housing by providing for tax-exempt interest and tax credits. Though the revenue bonds have been effective in the past, greater restrictions have evolved which make them less and less attractive. Mortgage credit certificates, however, remain attractive for homebuyers who are able to utilize tax credits.

2. Recommendations

Future tax policy, both from the legislative and regulatory perspectives, must be an integral part of the establishment of a national housing policy. Maintaining tax laws that encourage home ownership must be a key element. Further, tax laws that avoid causing unnecessary hurdles to investor participation in the mortgage markets will help provide the funds that are essential for housing transactions. Finally, tax policy should be revisited with a view toward assuring that adequate incentives exist for investment in rental housing particularly for lower income families and individuals. More specifically:

a. The deductibility of mortgage interest and real property taxes should be retained, as well as other tax laws that encourage homeownership.

b. REITs should be enabled to issue REMICs on a basis fully equal with that of other issuers.

c. With respect to tax treatment of rental housing, particularly for lower income families and individuals and congregate living, MBA supports:

(1.) A material participation exception for real estate, which would allow the use of passive losses from rental real estate activities to offset other income without limitation.

(2.) All cash-out-of-pocket ownership and operating expenses should be currently deductible against any income.

(3.) Construction period interest and taxes should be amortized over 10 years.

(4.) Limits on the volume of tax-exempt bonds that may be issued for the financing of low-income rental housing should be removed.

XII. Approaches to Reducing Housing Costs

In a real sense, all of the recommendations in this report aim at reducing housing costs.

But there are a number of significant opportunities not mentioned elsewhere that are well worth addressing, and that is the purpose of this chapter. As an organization of members specializing in the business of real estate lending, the analysis and recommendations focus almost exclusively on this area that we know best: mortgage finance.

In particular, the Mortgage Bankers Association of America, together with other lender, investor, and housing groups, plans a major broad-based initiative in the months and even years ahead to streamline the entire process of making and financing mortgage loans. If serious inroads can be made into the costs, and the lengthy time it takes to make a loan, then significant progress can be made in reducing housing costs. There are, as explained below, numerous ways in which public agencies can help in moving toward this objective.

A. STREAMLINING THE MORTGAGE PROCESS

While simplification of the mortgage process has appeal to all participants, it will be particularly beneficial to homebuyers. The purchase of a home is usually the most important transaction that the typical person enters into during his/her lifetime. It is not surprising that many approach the mortgage process with considerable trepidation. What is disappointing is that many homebuyers leave the closing table frustrated and confused about the complexity of the current process.

An overly complicated mortgage system also creates unnecessary expenses for the mortgage finance industry: for lenders, builders, and Realtors. Processing time, training, and staffing costs in general have risen dramatically in order to keep up with the new mortgage products and regulatory requirements that are being developed and modified. Investors, insurers and government agencies must spend valuable staff resources answering repetitive questions about policy interpretations and required forms.

The current mortgage process holds promising opportunitiesfor streamlining in two key areas: (1) forms used to process cases, and (2) the processing requirements themselves.

The number of forms required for the origination of a loan is probably the most visible evidence of the unnecessary complexity of the current process to the public. Congress has already passed legislation mandating Federal agencies (Federal Housing Administration, Veterans Administration and the Farmers Home Administration) to develop common forms. In addition, there has been an industry-wide effort to develop the Uniform Residential Appraisal Report. FHA, VA, Fannie Mae, and Freddie Mac implemented this form in 1987. The borrower application, verification forms and closing documents are three further examples of areas where forms can be eliminated, consolidated with another form or developed into a common form acceptable to all originators, insurers, and investors.

Increased processing requirements have resulted largely from the foreclosure and loss problems of recent years. While improvements have been made to develop uniform underwriting requirements among the various insurers and investors, there still remain numerous variations that make the current process too complicated. It should be emphasized that underwriting variations will always (and should) remain because of the different strata of buyers served by the various players in the housing market. However, at a minimum, each federally related agency could use the same method to perform a particular processing requirement.

1. Specific Plans – Agency Related

An industry-wide effort is underway to promote simplification of the mortgage process. Participants include all of the major insurers and investors (FHA, VA, Fannie Mae, Freddie Mac, and private mortgage insurance companies (MIs)) and interested trade associations (e.g., Mortgage Bankers Association of America, National Association of Realtors, National Association of Home Builders, American Land Title Association, and U.S. League of Savings Institutions). Examples of major, Federal agency-oriented initiatives for the period immediately ahead are as follows.

a. Revise FHA's ARM disclosure requirements. At present, the Federal Financial Institutions Examination Council (FFIEC) is continuing to examine the ARM disclosure issue. They are in the process of developing a standard hypothetical worst-case scenario. However, Section 241 of the National Housing Act requires borrowers to receive a worst case scenario that differs with the proposed form being developed by the Council. It would simplify the ARM disclosure process if the Council's form would also be acceptable in FHA transactions.

b. Exempt VA from Gramm-Rudman sequestration requirements. Because of Gramm-Rudman requirements, VA field stations have developed an elaborate tracking system which uses valuable VA staff time as well as the time of lender personnel. Before each loan is closed, the lender must obtain by telephone a

Loan Authorization Tracking System (LATS) number. It is extremely time consuming and takes VA staff away from more important processing steps that can delay the closing and guaranty of VA home loans. This situation would be alleviated by exempting the VA loan program from the Gramm-Rudman sequestration requirements.

c. Permit lenders to process VA appraisals. Similar to FHA's Direct Endorsement Program, lenders should be allowed to be responsible for reviewing VA appraisals and determining the value of property for guaranty purposes. Since lenders hold ultimate liability under the no-bid process, they have every incentive to ensure the accuracy of the appraisal. This action will also free up VA staff to perform other more critical monitoring duties.

d. Permit qualified lenders to issue HUD mortgage insurance certificates and VA loan guarantee certificates. Backlogs exist in the government agency insurance endorsement areas. If responsible lenders were given the authority to issue their own certificates, delays could be avoided in delivering loans to the secondary market. As a result, cost savings could be realized by consumers. Eligible lenders would be determined by review of default and claim data that each agency maintains. Participation would be limited to those lenders which are within acceptable ranges of performance. In this way, lenders would be given substantial incentive to process cases in a quality manner.

2. Other Mortgage Streamlining Steps

Beyond these broad agency-related initiatives lies an extensive range of streamlining opportunities throughout the mortgage lending landscape. They are listed here as suggestive of the many attempts currently underway to reduce housing costs through simplifying and streamlining the lending process.

a. Appraisals. We should aim to develop uniform appraisal instructions and uniform policy on appraisal standards, definitions and appraiser eligibility requirements. We should also develop a standard length of time for an appraisal. The length of time for which an appraisal is valid ranges from 120 days to 6 months on existing construction. Consideration should also be given to evaluating the development of a market-based approach to the term of an appraisal. We could reduce the number of required appraisal exhibits and we should seek ways to use automation to improve the appraisal process.

b. Form documentation. Attention should be directed to development of common forms for borrower applications and verifications of employment and deposit. In addition, forms required to process investor and buydown applications should be standardized.

c. **Closings.** Here, too, opportunities exist to develop more standard mortgage documentation. For instance, consideration should be given to consolidation of certifications and warranties. At present, borrowers are required to sign a variety of affidavits and certifications at closing. It may be possible to develop generic warranties and certifications. Perhaps, too, we could hope to develop model legislation permitting the release or satisfaction of mortgages by affidavit after proper payment and notice. Another step would be to establish a standard, adequate length of time for surveys. Often on refinances and other transactions, a survey will have been performed within a year of the new closing. In such instances, it should not be necessary to undergo the time and expense of a full new survey.

B. THE CONSUMER AND MORTGAGE SERVICING

Throughout the term of a homeowner's mortgage, the most enduring but also most poorly understood relationship he or she has with the housing industry is with the financial institution servicing the mortgage. In developing a national housing policy, it is important to address the costs and inefficiencies that are arising from the growing number of different state laws dictating how mortgage lending and servicing must be conducted.

The ability of mortgage lenders to transfer (sell and buy) mortgage servicing rights allows the industry to operate efficiently, and to make loan originations possible in a large number of local communities while concentrating servicing in fewer areas. Servicing rights to over $100 billion of mortgage loans were bought and sold in 1986. The market for mortgage servicing mushroomed further in 1987. These transfers help keep mortgage costs low by enabling large-scale, specialized servicing firms to take advantage of economies of large-scale operations.

Servicing transfers require labor-intensive, time-consuming, complicated efforts between the buyers and sellers that involve tight timetables, creation of thousands of documents, and multiple parties to the transaction. Transfers must be conducted carefully according to strict operational guidelines in order to avoid customer disruption and inconvenience.

Four states (New Mexico, Minnesota, Maryland, and Colorado) already have enacted laws that govern servicing transactions. Other state legislatures are contemplating legislation to address loan servicing transfers. Some of the regulations appear reasonable and seem to codify good business practices. However, variations in these laws negatively affect the transferability of servicing across state lines and add substantially to the cost of servicing a mortgage. Examples of the new requirements include: (1) requiring lenders to maintain offices in the state in which the mortgaged property is located; and (2) providing notices to the homeowner from both the selling and buying lender. Such laws discourage out-of-state lenders from providing housing finance in the affected state. The cost of maintaining branch offices for servicing would be prohibitive.

With regard to notifications, prompt notice to the borrower is in the lender's best interest to assure uninterrupted monthly payments, minimize customer relation problems, and provide a smooth transition. But this type of state law creates problems because of widely varying time frames and requirements governing which party must give notice, and the form and content of the notifications.

The Mortgage Bankers Association of America has developed a set of "Mortgage Servicing Guidelines" that could be the framework for uniform servicing practices for all lenders. MBA has urged its members to adhere to these guidelines because they reflect a level of service that the Association strongly endorses. We encourage others to do the same. The guidelines set forth the specific responsibilities of buyers and sellers of servicing to borrowers and to each other. They set specific timetables for required actions, customer service, payment of taxes and insurance, and other administrative functions.

XIII. Conclusions and Recommendations

The basic principle of a national housing policy today is the same as it has been for half a century. It is that the government has a commitment to the achievement of the opportunity for every individual in America to have decent shelter at an affordable price or rental rate.

While the principle has not changed, there are significant new developments that must be addressed currently and in the future. Most importantly, housing affordability has become a worsening burden over the past decade, especially for low-income renters. It is not untypical for very low-income people to pay over half their income for housing expenses, not leaving enough to adequately provide for other necessities of life.

It is time to restore housing to a lofty place on the list of national priorities. We have tried to provide the vision, the analysis, the foundations, and finally the building blocks for a comprehensive new housing policy. We offer, too, for as long as it takes, the commitment to see these programs through to reality.

The following summarizes all of the recommendations – all of the building blocks – of this report.

A. MACROECONOMIC POLICIES

A cornerstone of housing policy for the future should be macroeconomic policies to promote lower real interest rates, which are still high by historical standards.

1. The government should move toward reducing the Federal budget deficit, reducing direct Federal borrowing, and reducing real interest rates. It would be difficult to identify any single step that would be of greater long-term benefit to improve the affordability of housing.

2. Federal tax policy should encourage a higher national savings rate, which in turn would help lower real interest rates. To achieve this objective, ways to reduce our heavy reliance on the individual income tax as a source of revenue, and shift toward some broader based sales tax or value added tax, with appropriate exemptions to avoid regressivity, should be considered.

B. HOMEOWNERSHIP

1. Homeownership should be a cornerstone of American housing policy. Homeownership provides opportunities as varied as the American people themselves. It provides the opportunity for independence, individualism, self-expression, and a sense of fulfillment. Homeownership gets people involved in their community, its government, and in the private property system—it builds good citizens. Homeownership provides a place of security and sense of belonging that forges stability and solid family ties.

2. Homeownership can be promoted through the Federal tax system. In addition to measures already in place, it would be appropriate to consider permitting first-time homebuyers to withdraw funds from IRAs, without tax penalties, to make downpayments on homes purchased. Existing IRAs could be used for that purpose, and persons eligible for IRAs under current law could look forward to future withdrawals of funds from their IRA for making a downpayment on their first home.

3. To encourage the flexibility and innovation that the FHA needs to best meet its mission of facilitating the opportunity of homeownership and adequate rental housing for low- and moderate-income homebuyers, the Federal government should:

a. Redefine the FHA maximum mortgage ceiling as the greater of $101,250 or 95 percent of an area's median sales price. The maximum mortgage ceiling is intended to target FHA activity to moderate-income homebuyers. However, it is important that it have generally equitable applicability for the entire country. While the indexing concept introduced in 1979 is supportable, the maximum cap of $90,000 has served to exclude many middle-income families in high-cost areas. The scarcity of FHA mortgage activity in many of the metropolitan areas around New York, San Francisco, and other high-cost cities documents this problem. By redefining the ceiling, FHA activity would generally be confined to the lower half of the housing market, but would be available on an equivalent basis to homebuyers regardless of where they live.

b. Remove the cap on FHA ARM activity and permit FHA to insure ARMs with 2 percent interest rate increases per year with a 5 percent lifetime cap.

c. Make FHA's insurance authority permanent, and eliminate the credit budget limitation on FHA activity.

d. Strengthen the shared-equity program by reducing the maximum allowable loan-to-value ratio to 85 percent where the relationship between the parties is strictly a financial one. Since 1983, FHA has allowed shared-equity arrangements where the investor has no interest other than a financial one to obtain high-ratio loans. As a result, sellers have used this program as a means of selling their homes to otherwise unqualified borrowers.

e. Implement a demonstration reverse annuity mortgage (RAM) FHA insurance program as soon as possible and continue the research undertaken by HUD on this subject. Because of the uncertainty of secondary market acceptance of a reverse annuity mortgage instrument, as well as problems of dealing with the elderly at the end of the annuity period, HUD should take a very active role.

f. Consider exceptions for mortgages on rural housing to the current FHA requirements that the mortgagee conduct a face-to-face interview and perform other duties that discourage lender participation. In addition, currently loan correspondents must fulfill a $25,000 net worth requirement, which inhibits participation in the program, and which should be waived in rural areas if the lender purchasing a loan from a correspondent assumes liability for quality control over the purchased loan.

g. Provide HUD with an efficient organization and adequate staffing to carry out its programs. Specifically:

(1.) Reorganize the HUD field office structure so that HUD field offices report directly to headquarters. At present, the FHA Commissioner does not have direct control over HUD field offices that carry out FHA's programs. Under the current structure, the FHA Commissioner cannot establish work priorities for field offices. To administer a program of the size of FHA's effectively, it is essential that FHA have direct control over field office operations.

(2.) Fund a comprehensive training program so that FHA will have an adequate number of employees ready to step in when current employees retire or resign.

(3.) Establish a grade structure that will assure that FHA salaries are comparable to what individuals receive in private industry. Otherwise, FHA will not be able to attract and retain the type of talent necessary to manage a multibillion dollar agency.

(4.) Exempt FHA staffing from sequestration. With the implementation of the Gramm-Rudman provisions, FHA staff may be subjected to additional cuts if sequestration occurs. Since the principal nature of FHA work is the review of lender processing under Direct Endorsement, the FHA situation is analogous to that of the Federal Savings and Loan Corporation and Federal Deposit Insurance Corporation.

4. Congress and the Administration should assert their commitment to the VA guaranty program with adequate support both in the funding for and in the administration of the program. The VA loan guaranty should be reaffirmed as an important veterans' entitlement to be preserved. Funding levels should be sufficient to keep the program solvent. To maintain and strengthen the VA program, several specific actions should be taken:

a. The VA maximum guaranty should be increased to at least keep pace with inflation. The VA maximum guaranty amount of $27,500 has not been changed since 1980. As a result, the guaranty amount has failed to keep pace with appreciation in home sales prices, which have increased some 31 percent during the past seven years, as measured by the median price of all homes sold.

b. The VA should be authorized to guarantee ARMs without a statutory limit on the number of loans that can be guaranteed. Conventional and FHA mortgage markets' acceptance of ARMs has demonstrated they are beneficial – permitting borrowers and lenders to tailor transactions to borrowers' needs.

c. The VA no-bid formula should be amended to address the problems of economically distressed areas and to reduce or eliminate the penalty to lenders when the foreclosure process is delayed and the delay is beyond the control of the lender.

(1.) In no-bid cases when the property value has declined more than 15 percent, the lender should have the option of: (a.) taking the guaranty amount and retaining title to the property, or (b.) conveying the property to VA and forfeiting 5 percent of the outstanding indebtedness at the time of liquidation.

(2.) Lenders should be delegated the authority to: (a.) order the pre-foreclosure appraisal, (b.) make the required calculation to determine whether the VA should pay the guaranty amount, and (c.) determine the appropriate bidding instructions at the foreclosure sale.

(3.) Interest that accrues after the lender is ready, willing, and able to foreclose should not be included in the debt amount used in the calculation to determine whether there is a no-bid. If the VA acquires the property, the VA should reimburse the lender for the accrued interest.

(4.) Delays caused by circumstances beyond the control of the VA or the lender, such as bankruptcy, should be considered in adjusting the calculation. The lender should have the option to forfeit accrued interest in exchange for not having that interest included in the no-bid calculation.

(5.) Cost of delays caused by forbearance requested by the VA in the hope of avoiding foreclosure should not be charged to the lender. Interest that accrues during the forbearance period should not be included in the no-bid calculation. The lender should be reimbursed by the VA for the interest accrued during the delay if the VA does acquire the property.

(6.) Greater use should be made by the VA of the deed-in-lieu of foreclosure procedure. Acceptance of a deed-in-lieu of foreclosure reduces the cost of acquiring a property, while preserving a veteran borrower's credit record—it is often the most fair and expeditious route, particularly in cases where the default is caused by adverse economic circumstances beyond the veteran's control.

d. There should be adequate staffing for the loan guaranty program in all field offices, and adequate training levels must be restored so that veterans and program participants will receive a proper level of service.

e. A systematic plan to consolidate field office loan guaranty functions in the VA home loan program should be implemented. The very small offices are just too inefficient.

C. THE SECONDARY MARKET

1. Ginnie Mae

a. Ginnie Mae should be free to operate the MBS program without restraint or limitation set by Congress on the dollar amount of commitments the agency can grant each fiscal year to approved lenders for the issuance of guaranteed MBSs.

b. Ginnie Mae must be fully equipped with sufficient, well trained staff to administer its program.

c. Securities laws and regulations should be evaluated to ensure maximum use of technologically advanced systems. This is needed especially in light of Ginnie Mae's recent requirement for its guaranteed securities to be issued and held in the Mortgage Backed Securities Clearing Corporation, a privately owned and operated depository for Ginnie Mae securities.

2. Fannie Mae

a. Legislation should be enacted to prevent the imposition of any new or higher "user" fees on Fannie Mae.

b. Congress should confirm Fannie Mae's unlimited authority to issue REMICS, which offer the promise of lowering mortgage rates for consumers. Fannie Mae has proven to be a leader in setting the standard for these new types of mortgage-related securities.

c. Fannie Mae should be granted permanent authority to supply funds for second mortgages. Fannie Mae's authority to buy and sell conventional second mortgage loans expires during 1987. The second mortgage program operated by Fannie Mae has proven to be a safe tool for consumers to finance their housing transactions, and it is especially important in light of concerns about the safety of home equity seconds, a type of loan Fannie Mae does not buy.

3. Freddie Mac

a. Freddie Mac should not be required to pay any additional taxes or user fees beyond those which it currently does.

b. Freddie Mac, like Fannie Mae, should be confirmed as having permanent and unlimited authority to issue REMICs.

c. Freddie Mac, like Fannie Mae, should have permanent authority to buy second mortgages.

d. Freddie Mac's stock should be offered for sale to its entire diverse seller/servicer network, as well as the general public. Currently, there are in place unnecessary restrictions on ownership of the Corporation's stock.

4. Mortgage-Backed Securities

a. The SMEEA definition of "mortgage-related security" should be amended to cover MBSs receiving one of the top four categories used by at least one nationally recognized rating organization.

b. The SEC should explore appropriate ways to assure that private investment grade MBSs (i.e., private MBSs receiving one of the four highest ratings by a nationally recognized statistical rating organization) are not burdened with excessive net capital requirements. This would encourage more broker/dealers to carry larger amounts of private MBSs in their inventories and result in greater liquidity for these MBSs, which in turn should tend to lower interest rates to borrowers and help develop the private, nonagency-related market for mortgage-backed securities.

c. Congress and the SEC should explore ways to exempt from, or reduce the costs of, registration requirements under Section 5 of the 1933 Act to any private investment grade MBS issues. Statistical ratings may provide better protection to MBS investors, both small and institutional alike, than SEC registration because of the superior methodology of analysis developed by these agencies in rating private MBS issues. The significant cost savings from a registration exemption or some type of streamlined registration for investment grade MBSs could facilitate the further expansion of the fully private secondary mortgage market.

d. REITs should be enabled to issue REMICs on a fully equal basis with other issuers.

D. RENTAL HOUSING

1. Unassisted Rental Housing

a. The income tax laws should be readjusted to realistically reflect the economics of investments in rental housing and congregate living quarters, particularly for lower income people.

b. The FHA investor loan program should be retained and strengthened, but with a maximum allowable loan-to-value ratio of 75 percent. For large lower income families, renting a single-family home is often their only option for housing large enough to accommodate them. The underwriting problems and losses can be addressed in a more precise fashion without reducing housing opportunities for low-income families.

c. The maximum mortgage amounts for FHA insured projects should be increased and the mortgage amounts indexed so that they are automatically increased in accordance with a formula tied to an appropriate cost index.

d. FHA should be adequately funded to provide sufficient staff and resources for FHA to administer its programs. We are particularly concerned that FHA have adequate, trained staff at headquarters and field offices to promptly process applications for full insurance for multifamily projects and to carry out its responsibilities under the multifamily co-insurance program.

e. The multifamily loan purchase programs of Fannie Mae and Freddie Mac should be expanded, and development of a secondary market for multifamily mortgages should be encouraged.

2. Assisted Rental Housing

a. The roles of each level of government and the private sector should be defined. The delivery of housing assistance is a shared responsibility. The Federal government has a number of programs that are currently working well; many states have viable assistance programs; a number of nonprofit groups have developed the expertise and the funding to provide assistance; and private, profit-motivated companies have the experience and capacity to produce, finance, and manage rental housing. These efforts should be coordinated at the state and local levels to assure that housing needs are addressed in the most efficient and effective manner possible.

b. There are functions best suited to each level of government and private sector entities in providing housing assistance. We believe that state and local governments, assisted by private and nonprofit and community groups, are best able to define their housing needs and should have the responsibility for determining which programs best meet those needs. In an era of limited resources, someone must be responsible for determining how those resources will be distributed and we suggest that those choices should be made at the local, and sometimes state, level.

c. Financial resources are best and most equitably marshalled at the Federal level. A certain number of assistance programs should be designed and made available at the national level, but the identification of needs and the matching of available programs to those needs should be coordinated at the state and local levels.

d. As a general principle, where local housing market conditions allow, housing policy should look first toward the use and preservation of the existing stock of housing and surrounding community facilities, before new construction is undertaken. However, demand-side programs, by themselves, will not address all of the Nation's housing needs.

e. In designing assisted housing programs, a first step is to understand who needs assistance. The "needy" are not a monolithic, homogeneous group. Housing support is needed by a broad spectrum of people from the homeless, who generally need much more assistance than just what adequate housing would provide, to the "working poor" who have a generally adequate income but who are in areas where the cost of housing forces them to pay more than 30 percent of their income for rent or where adequate housing simply does not exist. Any comprehensive assisted housing initiative needs to address these various groups and their divergent needs.

Such an initiative should focus on improving existing concepts and programs for three reasons: (1) many of the current programs are basically sound and can be made more efficient and workable with only minor changes; (2) it is easier to develop a consensus on the value of and support for known programs than newly created programs; and (3) any new program would require a lengthy start up phase while guidelines are written, program participants learn to use the program and investors become comfortable enough to invest in such a program.

f. The very poor are best served through low-rent public housing. Because the supply of public housing is currently inadequate to meet the need, national housing policy should have a component for the construction or acquisition of new public housing units to serve this group as well as the repair and modernization of existing housing projects.

g. All current programs for housing senior citizens, including the Section 202 program, should be continued. Consideration should be given to replacing direct loans under Section 202 with an interest subsidy program.

h. A national scale and more universally workable housing assistance program for low- to moderate-income families and individuals is needed. The suggested program would have the following characteristics:

(1.) New construction or rehabilitation of projects in which 20-25 percent of the units would be set aside for low-income occupancy.

(2.) The projects could be financed through FHA-insured or conventional mortgages which could, in turn, be financed with tax-exempt bonds or a direct interest subsidy program.

(3.) Rental assistance payments (through the "Rental Supplement" or the "Section 8" programs) would be available for the low-income units so that tenants would have to pay no more than 30 percent of their income for rent.

(4.) The rent subsidies would be contracted for a 20-year term with the government having the option to renew the subsidy contracts at the end of 20 years if the units are still needed to house low-income households.

i. Consideration should be given to allocating a portion of Federal housing assistance funds to state or local governments in the form of block grants for housing. The funds would be allocated in accordance with a needs-based formula. States and localities could use the funds either through a menu of established Federal programs or in programs of their own design. They would decide, set forth a "plan," and receive funding upon approval of their plan.

j. There is inherent unfairness in the way housing programs are treated in the Federal budget process. One major reason why housing programs are viewed as so expensive is the current practice of counting the life cycle cost to the government of the housing assistance. Congress should redefine its budgeting approach at least to consider alternative calculations for housing costs such as a discounted present value calculation of the rental assistance payments.

E. COMMUNITY DEVELOPMENT

1. Enterprise zones deserve a test on the national level. Enterprise zone benefits should cover both commercial and residential rehabilitation. In addition to such local incentives as removal of property taxes for a specified period of time for new buildings, tax incentives can be explored for Federal excise taxes, state and local sales taxes, and expansion of the targeted jobs tax credit for businesses within the zones. The administration of enterprise zones incentives should be on a local level.

2. The Community Development Block Grant program should be continued. The program has been effective in many cities and extremely popular with most city governments because of the flexibility that communities have in determining where and how the money should be spent. The Urban Development Action Grant program should be continued, but directed more to distressed areas with the greatest need.

3. The current Federal tax treatment for the preservation of historically and architecturally significant structures should be continued.

4. The Employee Retirement Income Security Act should be amended to permit, where pension administrators desire, certain amounts of pension fund holdings to be designated for public interest investment.

F. HOUSING FOR THE ELDERLY

For the elderly, housing policies are needed which both encourage the creation of new forms of housing and the development of support systems designed to respond to the needs of those who can and want to "age in place." Thus, there is a need to create shelter and service complexes responsive to the health needs of a population whose longevity is accompanied by a gradual decline in physical well-being and to the desire for a socially supportive environment. But at the same time, the preference of the elderly to remain in their homes must be accepted and programs formulated to assist them in making their existing shelter more supportive of their physical and financial needs. To begin o address these issues, national housing policy should, at least:

1. Accelerate the adoption and implementation of the demonstration project of FHA mortgage insurance for reverse annuity mortgages.

2. Re-examine and expand HUD's congregate care program, taking into account the need to coordinate board and care with housing and shelter.

3. Explore establishment of a program of housing vouchers for the low-income, frail elderly, and handicapped who already own and occupy their homes but who need assistance to remain.

4. Convene a task force to address the financing needs of housing for the elderly and other special groups, including standardization and the secondary market. For home equity conversion, the task force would strive for a financing mechanism that would include the Federal insurance and the Federal secondary market agencies and would provide the elderly with certainty and simplicity so that it could be widely acceptable to investors and the elderly alike. In this context, the task force would be made up of representatives from private enterprise and from the government mortgage credit programs.

G. THE FINANCIAL REGULATORY AND TAX ENVIRONMENT

Financial regulations relating to housing policy for the 1990s and beyond should encourage the greatest competition among lenders and not result in competitive advantages based on ownership type or whether a firm is subject to U.S. or foreign regulation.

1. A proposed change in the definition of primary bank capital could have an impact on competition; result in structural changes in the banking sector; provide competitive advantages to foreign institutions; and affect the cost of credit to mortgage borrowers. To prevent the inappropriate redefinition of bank capital in a manner adverse to housing is an area in which Congress should intervene.

2. The McFadden Act should be amended to permit national banks to establish full service residential real estate loan offices without regard to bank branching restrictions and thus eliminate the need to have the mortgage loan application approval process performed in a headquarters or regional office.

3. Bank and thrift holding company affiliates should be authorized to underwrite a full range of privately issued, nonagency-related mortgage-backed securities.

4. The Truth-in-Lending Act should be amended to permit mortgage lenders to make telephone quotes or advertise quotes of interest rates and total points regarding mortgage loans with the stated proviso that the annual percentage rates may differ.

5. Congress should consider appropriate methods to preempt state superlien laws which apply to mortgages. Such measures should aim to keep mortgage credit flowing to all areas based on need and demand for mortgage credit and spreading the cost of cleaning up environmental hazards over a large number of units.

6. Future Federal tax policy, both from the legislative and regulatory perspectives, must be an integral part of the establishment of a national housing policy. Maintaining tax laws that encourage homeownership must be a key element. Further, tax laws that avoid causing unnecessary hurdles to investor participation in the mortgage markets will help provide the funds that are essential for housing transactions. Also, the Federal government should continue tax incentives for preservation of historically and architecturally significant structures. Finally, tax policy should be revisited with a view toward assuring that adequate incentives exist for investment in rental housing, particularly for lower-income families and individuals. More specifically:

a. The deductibility of mortgage interest and real property taxes should be retained, as well as other tax laws that encourage homeownership.

b. With respect to tax treatment of rental housing, particularly for lower income families and individuals and congregate living:

> (1.) A material participation exception should be made for real estate, which would allow the use of passive losses from rental real estate activities to offset other income without limitation.
>
> (2.) All cash-out-of-pocket ownership and operating expenses should be currently deductible against any income.
>
> (3.) Construction period interest and taxes should be amortized over 10 years.

(4.) Limits on the volume of the tax-exempt bonds that may be issued for the financing of low-income rental housing should be removed.

H. REDUC'.\G HOUSING COSTS

1. The Mortgage Bankers Association of America, together with other lender, investor and housing groups, plans a major broad based initiative in the months and even years ahead to streamline the entire process of making and financing mortgage loans. If serious inroads can be made into the costs, and the lengthy time it takes, to make a loan, then significant progress can be made in reducing housing costs.

2. MBA has developed a set of "Mortgage Servicing Guidelines" that could be the framework for uniform servicing practices for all lenders. MBA has urged its members to adhere to these guidelines because they reflect a level of service that the Association strongly endorses. We encourage others to do the same.

* * *

The foregoing recommendations are, we believe, the building blocks for a new national housing policy. As developed throughout this report, the proposals can, we believe, substantially serve as a national policy.

Where we will live, we Americans, in the decade ahead and in the next century is a subject that must be of high priority on the national agenda. With these fundamental priorities, and with commitment and follow-through from people who care, a positive and successful answer to the question, "Where will we live?" can be achieved.

Second, there has been a demonstrated ability to better understand local needs at the local level, and to make policy decisions that suitably and sensitively match programs to needs in a local context. Third, but in a related vein, local people are better able to plan and effectively manage programs to address unique local situations. This is particularly true when housing programs are just part of a milieu of social problems. Consider, for example, the question of the homeless. Local governments, and to a lesser extent state governments, have proven to be best equipped to handle the immediate task of deciding whether and for how long persons will remain on the street, whether they can be temporarily housed in shelters or hotels, whether they will be mainstreamed into health or job related assistance and whether permanent housing is available. At this level of need, state and local intervention is essential. At this level, the problem can be more readily defined and a coordinated response initiated.

E. THE ROLE OF THE PRIVATE SECTOR IN ASSISTED HOUSING

The private sector, both profit-motivated firms and nonprofit organizations, has roles in the delivery of assisted housing. Historically we have relied upon private, profit-oriented firms to build, finance, and manage the major portion of all assisted housing. The entrepreneurial, organizational, and management skills of such firms help assure the delivery of quality housing at reasonable costs.

The not-for-profit community brings to the process its commitment to solving local housing and social problems, abilities to build essential constituencies, and the ability often to mobilize public and other resources that profit-oriented firms cannot. There are numerous outstanding examples of what dedicated individuals in the private sector can accomplish. Just one example, the Enterprise Foundation, operates programs in some two dozen cities which are extremely effective at identifying and meeting local housing needs.

F. CONCLUSION – SHARED RESPONSIBILITIES

The first broad issue in establishing policy for the delivery of assisted rental housing is to define the roles of each level of government and the private sector. There are functions best suited to each level of government and private sector entities in providing housing assistance. We believe that state and local governments, assisted by private and nonprofit and community groups, are best able to define their housing needs and should have the responsibility for determining which programs best meet those needs. In an era of limited resources, someone must be responsible for determining how those resources will be distributed, and we suggest that those choices should be made at the local, and sometimes state, level.

The delivery of housing assistance, i.e., getting projects built and assisting the households in need, is a shared responsibility requiring active participation by the Federal government and private, profit-motivated entities as well as the participation of state and local governments and nonprofits. The Federal government has a number of programs which are currently working well; many states have viable assistance programs; a number of nonprofit groups have developed the expertise and the funding to provide assistance; and private, profit-motivated companies have the experience and capacity to produce, finance, and manage rental housing. All of these efforts should be continued and, in some cases, expanded, and they should be coordinated at the state and local levels to assure that the needs are addressed in the most efficient and effective manner possible.

In a nutshell, financial resources are best and most equitably marshalled at the Federal level; a certain number of assistance programs should be designed and made available at the national level; but the identification of needs and the matching of available programs to those needs should be coordinated at the state and local levels.

A model to work from, up to a point, is the housing assistance plan process set forth in the Housing and Community Development Act of 1974. It provided for the quantification of local needs at the state and local levels of government, with community involvement. And it presumably enabled state and local officials to match programs to those needs. The inherent defect that emerged over time was that Congress dictated the ultimate mix of program funds – by type of program and between use in connection with new versus existing housing. This often prevented the program and housing mixes in state and local plans from being carried out as planned. For the future, the approach envisioned would have Congress authorize and appropriate program types and aggregate funding levels. Program mix and housing types would emerge through decisions at the state and local levels.

IX. Approaches to Housing the Needy

A. INTRODUCTION

"There is nothing new except what is forgotten" (Mme Bertin, milliner to Marie Antoinette). Although first said 200 years ago, Mme Bertin's statement is perceptively appropriate to a contemporary discussion of housing assistance in this country. For most of this century, the Federal government has provided a wide variety of housing assistance programs. We have subsidized mortgagors, mortgagees, and tenants through interest reduction, mortgage reduction, and rent reduction programs. Each of the programs has had its strengths and weaknesses and each has had a common fatal flaw – they all cost money.

However, if we subscribe to the goal of decent housing for all Americans, we must face up to the cost. Clearly, we should assist households in the most cost-effective manner possible. But we must also realize that expenditures will increase above current levels if reasonable housing goals are to be achieved.

In discussing the cost of housing, it needs to be pointed out there is inherent unfairness in the way housing programs are treated in the Federal budget process. One major reason why housing programs are viewed as so expensive is the current practice of counting the life cycle cost to the government of the housing assistance. While not arguing that the budget calculations for housing are necessarily inappropriate, there does exist a fairness issue which should be addressed. The Congress at least should consider alternative calculations for housing costs, such as a discounted present value calculation of the rental assistance payments.

For example, if a Section 8 rental assistance contract is executed for a 20-year term, the cost for the entire twenty years is used in calculating the first year cost to the government. Other sectors of the budget are not treated comparably. The entire life cycle cost of maintaining a battleship is not calculated when construction of a new ship is approved. Likewise, welfare payments are budgeted on an annual basis, not on the life expectancy of the welfare recipient.

In assessing the need for housing assistance, recognize that the "needy" are not a monolithic, homogeneous group. Housing support is needed by a broad spectrum of people, from the homeless, who generally need much more assistance than just what adequate housing would provide, to the "working poor," who have a generally adequate income, but who are in areas where the cost of housing forces them to pay more than 30 percent of their income for rent or where adequate housing simply does not exist. Any comprehensive assisted housing initiative needs to address these various groups and their divergent needs.

In what follows, we look first toward trying to logically define groups of people who need housing assistance in a way that usefully differentiates them in terms of the kinds of assistance required. We then consider the broad issue of relying on new production versus putting emphasis on preserving existing housing as alternative strategies for delivering housing assistance. Finally, recognizing that some mechanism for supplying new housing is necessary to a balanced and complete package of programs, we outline a recommended program for low- and moderate-income assisted housing.

B. TYPES OF NEEDS

There are basically four categories of households in need of housing assistance: (1) homeless, (2) poor, (3) elderly/ handicapped, and (4) low to moderate income. Each requires a different approach to assistance.

1. The Homeless

The homeless have a particularly pressing need and are a particularly difficult group to assist. Many of the homeless are mentally ill or have other overwhelming problems. Assisting homeless people requires much more than merely providing shelter and therefore we believe that solutions to the problems of the homeless are best developed and administered locally. The Federal government has a role in providing support for local efforts, both in providing information on successful local strategies and in providing funds to help local governments and nonprofit groups assist such people. The Federal government's role need not include provision of national programs to address such needs.

2. The Poor

The poor (meaning in general people below the poverty level of income) are another distinct group in that they also often have a number of social problems which cannot be adequately addressed by only providing suitable housing. This group is difficult for the private housing industry to house because private industry lacks the expertise and incentives to provide the social service support needed by this group. Additionally, a large percentage of the poor who are inadequately housed require very large units, which are generally not available in the private stock and would not be produced by the private market without some guarantee that there would be a demand for the units and an ability to pay for the units over a sustained period.

Mortgage
Insurance
Companies
of America

C. Earl Corkett
President

October 5, 1987

The Honorable Alan Cranston
Chairman of the Senate Subcommittee
on Housing and Urban Affairs
Room 112 Hart Senate Office Building
United States Senate
Washington, DC 20510

Dear Senator Cranston:

The Mortgage Insurance Companies of America (MICA), the trade association representing all domestic mortgage insurance companies, appreciates this opportunity to offer to the Subcommittee on Housing and Urban Affairs its views on the development of a national housing policy. We hope our suggestions will be of assistance.*

There are many goals that a national housing policy should seek to achieve. MICA, however, will primarily address the issue of increasing the affordability of homeownership for Americans since our expertise is in this area. We will try and make our comments as concise as possible and in a form that will [illegible] woven into the legislative process that the Subcommittee will be undertaking.

As a brief background, mortgage insurance indemnifies mortgage lenders for a portion of the direct and consequential losses incurred by reason of nonpayment of a mortgage loan. As a result, mortgage insurance reduces a lender's risk and makes a high loan to value mortgage possible. This helps millions of Americans purchase homes they otherwise would not be able to afford because they had not accumulated sufficient savings for a large

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**MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, C. Earl Corkett of PMI, San Francisco, CA; Vice President, William Lacy of MGIC, Milwaukee, WI; Treasurer, J. Edward Carlton of Integon Mortgage Guaranty Insurance Co., Winston-Salem, NC; and Secretary, Fred Reichelt of Verex Assurance, Inc., Madison, WI. MICA also has private mortgage insurance companies members in Canada and Australia. At the end of 1986 the industry had over $267 billion of insurance in force.*

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downpayment. The insurance product is very similar in purpose to the Federal Housing Administration (FHA) insurance product because it essentially exists to help first time homebuyers and others who do not have the cash for a large downpayment. FHA and private insurers serve very similar markets.

Because of the complex social and economic nature of housing, the development of a national housing policy is going to be a long and arduous process. Change has been so extensive of late that in order to find solutions to the nation's housing problems there is a need to accurately assess today's economic realities. Many housing efforts are no longer working as designed. Policy makers in the housing field must accept recent facts and develop new ideas.

MICA believes that above all the basic housing goal should be decent shelter for all our citizens and a homeownership opportunity for those responsibly contributing to the society. To accomplish this, the public sector must target its efforts to assist those who need government help. For those individuals with the means to obtain housing services through the conventional market without government assistance, national housing policy should insure they do so. At the same time, as it accomplishes important social goals, national housing policy must function in a marketplace that is both driven by the forces of supply and demand and is effected by profit and risk avoidance motives of those firms providing housing services. We, therefore, believe that government programs must demonstrate a partnership with private enterprise which will encourage private firms to serve more of the total need for housing services. Competitive markets bring greater efficiencies and the government must not use its incentives in ways that lessen the competitive opportunities for private firms.

While the framework of this partnership exists, it is in fact not working as Congress intended it to. Fifty years ago, Congress created the FHA to help lower income individuals purchase homes. Today, increasingly it is serving upper-middle income individuals who can afford the private sector alternative and working to the detriment of lower income people who need a government program. National housing policy must retarget this important program. If this current imbalance continues, private industry will become less and less able to serve the marketplace to its full capacity. A proper role for FHA is essential for an effective national housing policy.

MICA has commissioned a study of the markets served by FHA and private insurers and while the study will not be finalized until late October, the preliminary data shows that FHA needs to be retargeted primarily because it extensively serves upper-middle income homeowners. On a national level for each of the past five years at least 30 percent of all FHA insured borrowers have had annual incomes over $40,000, while only a very small percentage of FHA loans went to low-income borrowers. In 1986 there were many individual metropolitan statistical areas (MSAs) where 40 percent of FHA insured loans were extended to borrowers with incomes exceeding 140 percent of the MSA's median income. Also, a clear targeting to upper-middle income homeowners is *present in the refinance market, where FHA has served an even higher income group than it served in home purchase loans. In 1986, 52 percent of the borrowers who refinanced loans that became FHA insured, had incomes over $40,000 and almost 20 percent had incomes over $60,000. Even more astounding is the investor market served by FHA insured loans. In 1986, over 15 percent of the nonowner-occupied investors who received FHA loans had incomes over $100,000. Fifty percent of them had incomes over $60,000.*

The preliminary data show substantial overlap in the market served by the FHA and private insurers. Contrary to what many would expect, however, private insurers are serving the low-income market (borrowers with incomes under $20,000) at least as well as the FHA and the FHA has taken the greatest share of what most would expect to be served by insured conventional loans in the highest brackets that fit within the FHA eligible loan limits. The admonition noted a number of years back by a former Chairman of the House Housing Subcommittee that new FHA ceilings tend to become the floor, can statistically be shown to have proven true.

It is not surprising or difficult to analyze why the FHA has shifted its focus to the upper-middle income market. The mortgage finance system has undergone many complex changes. A prime example is the change in the relative importance of the secondary market to the economics of lending which in turn has had effects upon the basic structure and usage of FHA insurance.

The FHA was created to stimulate near moribund housing markets of the 1930s. It was to assume the risk of default and provide lenders with long term, level payment, self-amortizing mortgages. Eligible properties could not exceed $16,000 in appraised value and a uniform annual premium of .5 percent of the outstanding principal balance was charged to all borrowers. Because the lender is insured against a possible loss, it was intended that the borrower benefit through a lower mortgage rate that would be available under the terms of a non-insured loan. For most of FHA's history the interest rate for borrowers was administered and fixed for the term of the loan. Both the uniform loan interest rate and the uniform premium that was charged to all borrowers regardless of the terms of the mortgage such as the loan to value ratio indicated that the FHA insurance product was intended to be distributed at a price that did not directly relate to the individual cost of that product. There would be a beneficial cross-subsidization from the absence of price discrimination against borrowers with very low downpayments or weaker credit. This was acceptable from a social welfare standpoint and would work because the program eligibility limits on loan size could keep the program targeted to the lower end of the market.

Over time many changes have occurred in the regulations of the FHA program; maximum loan limits have been increased again and again, the administered interest rate was abandoned, a single premium paid at settlement was adopted, direct endorsement was permitted. These changes have primarily helped the lender reach a larger market more effectively. However, because of the economics of the mortgage banking business these changes have had negative social welfare effects on borrowers with lower incomes. Because FHA eligibility is not based upon borrower income, the program's usage has become a situation driven by the faster processing of borrowers with better credit and with requests for larger loans. The result is that FHA extensively serves upper-middle income homeowners.

This could have been anticipated if the fundamentals of the secondary mortgage market had been applied. The profit level of loans sold in the secondary market correlate directly to loan size because both origination and servicing fees are based on a percentage of the loan amount. When servicing portfolios are bought and sold, higher prices are paid for larger loans because they offer greater profits. Processing of higher income borrowers is generally easier and there is less probability for payment disruptions. As a consequence, a lender has incentives to originate FHA loans that serve the higher versus lower income borrower.

An additional effect from this influence of the secondary market has been to decrease competition between mortgage lenders using FHA. Because the profit margins are larger for higher balance loans, the less efficient mortgage banker can remain viable by competing for only this higher income segment of the market. This puts pressure on the margins of the more efficient firms making them less inclined to serve the low end of the market. The reduced competition further accelerates the misallocation of FHA insured loans away from those most in need.

Without belaboring the point, the low income homebuyer attempting to buy an inexpensive home is the ultimate loser in this situation. This borrower finds that lenders either have a set minimum as to acceptable loan amounts for the mortgages they offer or the pricing on the terms of the loan is tiered. With "tiered pricing", lenders charge borrowers receiving these small loans a higher interest rate or more points than someone obtaining a larger loan. This acts to offset the lost profits on the low principaled loan. Thus if lower income people are able to receive an FHA loan, they are typically charged more than higher income people. National housing policy should not accept this redistribution of income from lower to upper-middle income families that occur in government insured loan programs. Since the function of FHA is to subsidize or absorb the default risk on behalf of the lender there should be a social quid-pro-quo for this benefit. A profit driven allocation of credit by the lender, as natural as it may be due to market forces, is detrimental to expanding homeownership for all when it disfavors the poor.

Other important players in the housing field also have been forced by their business motivations to contribute to the present inequalities in the system. Home builders who want to ensure that they will be able to sell their inventory of homes generally have had to push FHA to the higher end of the market for reasons that are apparent when the statistics showing the price of new construction are examined. Many of the features of an FHA insured loan including the less stringent underwriting requirements and the direct endorsement program have offered builders greater assurance that loan applications will be approved, and processed more quickly than is possible *with a conventional mortgage. Likewise real estate agents, whose profits also depend on certainty that the mortgage loan will be approved have supported continued expansion of FHA's program to a broader and more active market. Because a real estate sales agent's income, like the lender's, is based on a percentage of the price of the home, the business incentive exists to reduce uncertainty and point homebuyers in the direction of FHA insured financing.*

There also are many attractive consumer benefits that act as an incentive for higher income borrowers to seek FHA loans over conventional financing. The benefits include the following: nationwide underwriting requirements which make the underwriting requirements less restrictive than conventional standards in many markets; lower downpayment requirements; access to the Government National Mortgage Association (Ginnie Mae) which can make interest rates lower than rates for conventional loans; the ability to finance closing costs; a uniform insurance premium that is not based on a reasonable risk analysis; the ability to finance the premium; and importantly, the ability to for a subsequent borrower assume the loan. These benefits can be vital to many homebuyers but must be targeted to those with lower incomes and restricted from those upper-middle income borrowers who clearly have other options for housing credit that does not require government assistance.

Clearly the changes that have occurred in the market have impeded the ability of FHA to do the job it was established to undertake. It is time, therefore, for Congress to reset the dials on the FHA program that encourages its use and availability to the lower end of the market. To accomplish this, Congress must consider the incentives that are created by the various elements of the FHA program that effect its usage by mortgage lenders.

To alleviate the problems discussed above and to put this essential element of national housing policy back on the right track MICA offers the following recommendations:

1. Direct the benefits of FHA to those who need the benefits.. MICA proposes a policy of full preservation of FHA benefits to those borrowers with lower to middle incomes and a reduction in the consumer directed benefits of the FHA 203(b) program currently available to higher income individuals. Specifically, we would change the FHA 203(b) program to require that individuals who can afford to pay a market rate for FHA service and who should be able to contribute a higher equity position in the loan, to do so. Those with lower incomes who need government assistance would be able to receive it.

We would recommend this be accomplished legislatively by taking the framework found in the mortgage revenue bond section of the Internal Revenue Code of 1986 and apply it to the 203(b) program. The result would be that if a borrower's income is above 115 percent of the medium family income in his market, that borrower would still be eligible for an FHA loan, but at least a 5 percent downpayment would be required, closing costs could not be financed, the insurance premium for the loan would be set at a market rate, and the loan would be due-on-sale. In high cost areas or in economically depressed areas as designated by the Secretary of the Department of Housing and Urban Development (HUD), a borrower's income would have to be 140 percent above the medium family income before these market standards were applicable to potential FHA borrowers. Importantly, borrowers whose incomes were below these levels of 115 percent and 140 percent in special areas would continue to receive the full complement of current FHA benefits.

2. Direct the business incentives to originate FHA loans to the low end of the market and increase FHA's actuarial soundness. FHA, with its 100 percent insurance, makes the loan virtually risk free for the lender to originate and obviously acts as a significant incentive for the lender to originate FHA insured loans. This incentive, however, should act to direct FHA to the lower end of the market, as the Congress intended when it created FHA. To do this MICA recommends two solutions.

The first is to maintain the policy that FHA loans to low income borrowers essentially be risk free to the lender. However, loans originated to higher income borrowers would require the lender to act as a coinsurer with FHA in the manner that the private sector and the Veterans' Administration (VA) operate. FHA insurance should be limited to a percentage of the loan amount where the borrower's income exceeds 115 percent of the median family income in the market. In high cost areas or in economically depressed areas that are designated by the Secretary of HUD, a borrower's income could be up to 140 percent of the median family income of that area and the loan would receive 100 percent coverage. The partial coverage limits for the FHA loans of higher income borrowers could track those adopted by the VA.

The purpose of this shift to coinsurance is to expand the competition within the private lending industry by making the lender more accountable for the performance of his loan in a manner comparable with that required by the private insurance industry and the government sponsored secondary market agencies. The coinsurance will be an incentive toward improved underwriting and help to eliminate loss for the FHA on those loans that are used to serve the upper-middle income and above markets. This will improve FHA's overall actuarial soundness since a substantial portion of current losses are generated from this higher income segment of FHA's business. Lenders selling these coinsured loans to Ginnie Mae would provide warranties comparable to those required by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) and Ginnie Mae would also require the issuer to provide additional insurance on the pools so that Ginne Mae continues its effective role as provider of surety coverage.

The second element in this retargeting of the incentives directed to lenders recognizes the critical importance to lenders of the Ginnie Mae program as a secondary market outlet for FHA loans. In order to increase the attractiveness of the loans to borrowers with lower incomes, a quota would be placed upon Ginnie Mae pools requiring that not less than 25 percent of the pools be comprised of loans to borrowers whose incomes do not exceed the income targeting mechanism described above. Establishing a quota will help place a premium upon loans to borrowers that FHA should be serving and help offset the current discount that is given to small balance loans when they are offered with servicing for sale. It may be feasible to couple this quota requirement with an adjustment in the guarantee fees which are taken from the portion of the interest payment retained by the lender and paid to Ginne Mae. Ginnie Mae pools that have a concentration of loans to lower income borrowers as defined above should provide the lender a lower guarantee fee. It is only equitable that for pools made up of loans to higher income borrowers, Ginnie Mae issuers should pay higher guarantee fees.

3. Expand the overall availability of mortgage credit to lower income borrowers. National housing policy must have as its priority to expand the homeownership opportunities to borrowers with lower incomes and greater affordability problems. In recognition of the fact that private mortgage insurance is serving a very substantial number of borrowers with incomes less then $20,000, it would be advantageous to provide to those lenders originating smaller conventional non-government loans, the ability to pass on to the borrowers of such loans, the lower interest cost available from direct access that Ginnie Mae has to the capital markets. Therefore, we recommend that conventional loans to borrowers whose incomes are below 115 percent of median family income in their market or 140 percent if the area is designated to be a high cost area or economically depressed by the Secretary of HUD be eligible for pooling and issuance in Ginnie Mae securities.

Again, it is important to stress that Ginnie Mae's very powerful and effective role should continue to be confined to providing surety coverage on its pools. There is a growing industry of financial guarantee insurance companies in addition to private mortgage insurers that have the capability to provide guarantees that can supply the protection so that such "mixed pools" issued by Ginne Mae remain of the highest quality from a performance standpoint. A change in this area of housing policy would reflect the new realities from private sector firms able and willing to insure the sales of government agency securities.

MICA believes these recommendations should be included in the legislative process for thorough examination and challenge. The FHA accounts for a major volume of home financing. It is a government program with a strong future but whose usage must meet reasonable social welfare requirements working within the system of a public partnership to delivering housing services to American families.

Thank you for this opportunity to express our views. Please let me know if I can be of further assistance.

Sincerely,

Earl Corkett

C. Earl Corkett

CEC/smb

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October 14, 1987 .

Senator Alan Cranston
Subcommittee on Housing & Urban Affairs
Washington, D.C. 20510

Dear Senator Cranston:

We write in response to your invitation to participate in the development of a new framework for a national housing policy. The following submission sets forth some of the issues with which we are concerned and some suggestions for specific components of a new housing bill.

The NAACP Legal Defense and Educational Fund has long had a special interest in the provision and condition of housing for minority citizens, especially the poor. As the Subcommittee well knows, a majority of residents of public housing units in the United States are minority group members; 71 percent of the non-elderly units within central cities are occupied by blacks. Regrettably, the current supply of public and federally-subsidized housing is nowhere adequate to the demand. Hundreds of thousands of poor black families live in overcrowded apartments, dilapidated rental units, or, increasingly, in temporary shelters or the streets.

The location of low-income housing units, moreover -- often isolated in rural areas or concentrated in poverty areas of central cities -- is a crucial factor impeding the ability of minorities and other poor persons to achieve equal opportunity. Where black people are forced to live determines the schools their children will attend, the access they will have to jobs and to adequate municipal services and amenities. Our experience in the areas of school desegregation, employment discrimination, and voting rights, has taught us the extent to which geographical isolation can impede the achievement of true social justice, precluding the poor from the opportunity to share in the largesse of our society.

We believe that the federal government must play a major, continuing role in the provision of housing for the nation's poor. Low-income housing should be a matter of special federal responsibility; only the federal government has the resources and broad jurisdiction to insure that decent and safe housing dispersed throughout the nation is available to poor citizens.

Contributions are deductible for U.S. income tax purposes.

The NAACP Legal Defense & Educational Fund, Inc. (LDF) is not part of the National Association for the Advancement of Colored People (NAACP) although LDF was founded by the NAACP and shares its commitment to equal rights. LDF has had for over 30 years a separate Board, program, staff, office and budget.

While the specific modes and mechanisms for federal involvement present difficult issues for Subcommittee investigation, several principles should guide the debate. *First*, the federal government should aim to insure that all persons have decent, safe and sanitary housing. *Second*, federal funding and programming should be targeted first to the plight of the poor. The greatest attention should be focused on those with the greatest needs. *Third*, the federal government should insure that the stock of public and federally-subsidized housing units for the poor, at a minimum, is not allowed to diminish; no person's right to a home should be prey to the vicissitudes of the market or the insensitivity of a particular political administration. *Fourth*, Congress should foster means by which the federal government can affirmatively further integrated housing in integrated neighborhood. Finally, any comprehensive approach to housing must take into account not only the need for housing units but also the federal responsibility to provide the social services, job training and health resources that poor people need to move into the economic mainstream.

In the following pages, we outline some of the specific issues that we believe the Housing Subcommittee should address. The list of our concerns is not designed to be exclusive but is rather indicative of the types of issues the Subcommittee should consider.

I. The Provision of Federal Housing Assistance

A crisis is impending in the provision of affordable housing for low- and moderate-income citizens in the United States. As the Subcommittee knows, during the 1980s, the absolute number of poor households has sharply increased. The private market is unable to obtain the private financing to construct economically viable low-income housing, and it has been deterred from doing so by incentives against capital investments in the new tax codes. Private sources will not be able, without substantial new incentives, to address the needs of the poor. Experts predict that by 2003, there will be as large a gap as 7.8 million units between total low-income housing supply and households needing such housing.[1]

At just the moment when federally-assisted housing is most necessary, much of the existing stock is soon to be lost to low-income persons. Both major types of federally-assisted housing in the United States -- Insured Assisted Housing, through which HUD subsidizes mortgage insurance and interest, and Section 8 New Construction, under which rental unit owners receive subsidies from HUD -- are in danger of sharp depletion of their inventories, as the contracts under which private owners agreed to provide low-income housing in exchange for federal assistance expire. The General Accounting Office has predicted that the effects of prepayment of mortgages under the Section 236 interest-rate subsidy program and the Section 221(d)(3) below-market-interest-rate program, and the conversion of section 8 housing to market-rate units will be to shrink the stock of federally-assisted housing from 1.9 million units in 1985 to as few as 174,000 units in 2005.[2]

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[1] *See* P. Clay, *At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources* iv (1987).

The federal government must act to prevent the existing stock of federally-assisted housing from suffering this one thousand percent decrease. The Subcommittee must explore programs to recapture this housing or induce private owners to keep their units low-income. In addition, the Subcommittee should explore the broader lessons that this potential decrease in low-income stock teaches about the limits of a shared private and federal responsibility for low-income housing. While private industry has a legitimate role in the provision of affordable housing, national housing policy should never again be made to rely so heavily on short or medium-term contracts.

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In addition to this potential loss of federally-subsidized units, the Legal Defense Fund is also concerned about how to maintain of the stock of existing public housing. We recognize that some public housing projects have been failures, isolating the poor in an environment plagued by crime and an attitude of despair. Ultimately Congress may decide that the goal of providing all persons with decent, safe, and sanitary housing is better served by some mechanism other than conventional public housing. But, at least until acceptable alternatives have been provided in quantities sufficient to meet the needs of the poor, the existing stock of public housing must be maintained.

There are now proposals by local housing authorities to demolish or sell a great portion of the public housing stock in cities such as Houston, Kansas City, Galveston, Augusta, East St. Louis, Detroit, San Francisco, and Bridgeport. These projects are funded by HUD under the Housing Act of 1937, as amended 42 U.S.C. § 1437, and their demolition is purportedly limited by the terms of 42 U.S.C. § 1437p. That section, however, and the regulations promulgated under it are marked by vague criteria; the section also lacks any guarantee for replacement housing. Specifically, Section 1437p provides that HUD may not approve an application for demolition unless "the project or portion of the project is obsolete as to physical condition, location, or other factors, making it unusable for housing purposes, or no reasonable program of modifications is feasible to return the project ... to useful life." 42 U.S.C. § 1437p (1982) (emphasis added). The disjunctive language -- permitting demolition when unspecified factors make a project unusable for housing purposes or when rehabilitation is not a feasible alternative -- affords HUD very broad discretion to permit a project to be destroyed.

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[2] See General Accounting Office, Rental Housing: Potential Reduction in the Privately Owned and Federally Assisted Inventory (June 1986); see also Moore, Expiring Subsidies, Nat'l J., Aug. 2, 1986, p. 1884.

Moreover, once public housing units are lost to low-income tenants, there is no obligation on local housing authorities to replace them with a commensurate number of new public units. Although all tenants in a demolished project must be "relocated to other decent, safe, sanitary and affordable housing," 42 U.S.C. § 1437p(b)(2), the Act does not require the one-for-one replacement of demolished units. At a time when there are long waiting lists for housing in virtually every area of the country, the effect of section 1437p is simply to allow those whose homes are being demolished to jump the queue for remaining public or subsidized units, prolonging the wait of others who continue to seek adequate housing.

These problems are further exacerbated by the leeway currently afforded local public housing authorities to evade the strictures of section 1437p by maintaining projects in such a fashion that demolition becomes a _fait accompli_. At Allen Parkway Village in Houston and Guinotte Manor and Chouteau Court in Kansas City, for example, local public housing authorities have instituted admissions freezes and allowed vacant units to remain unrented in a deteriorated condition. These actions may eventually result in the demolition of projects -- in cities with long waiting lists for public housing -- that could easily be rehabilitated. Congress should state explicitly that no project can be demolished, constructively or otherwise, without HUD approval; it should also require HUD affirmatively to prevent "constructive demolition;" and it should explicitly afford aggrieved tenants a private right of action to prevent these practices.

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The Legal Defense Fund is also concerned about the diversion of housing funds directed for the use of very low-income persons, many of whom are black persons. One telling example is the preference that local public housing authorities give to moderate-income persons over very low-income persons in their selection of tenants. Despite the statutory requirement that preferences be given those families who pay more than 50 percent of their income for rent, 42 U.S.C. § 1437d(c)(4)(A), the courts have held that HUD and the housing authorities can in their discretion ignore the housing requests of very low-income applicants in preference to those who earn more money.[3]

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[3] _See Gholston v. Housing Auth. of City of Montgomery_, 818 F.2d 776 (11th Cir. 1987).

Another example is the discretion granted HUD in the administration of the Community Development Block Grant program, designed to insure the provision of housing to persons of low and moderate income. 42 U.S.C. § 5301(c). Congress should make clear that the language that programs "principally" benefit the poor is not merely precatory,[4] and should establish the private and governmental enforcement mechanisms necessary to insure that the aid to the poor which is mandated as a condition of federal funding is actually provided.[5]

II. *Discrimination in Federal Housing Assistance*

Discrimination against the poor, especially the minority poor, is especially intolerable in housing programs that receive federal funds, yet discrimination has plagued federal housing efforts from their inception. Under the Housing Act of 1937, localities were granted broad discretion in their siting and tenant selection criteria, leading to the segregation of virtually all public housing projects. Not until passage of Title VI of the Civil Rights Act of 1964 were federally funded housing projects placed under any duty to desegregate.[6] In *Hills v. Gautreaux*, 425 U.S. 284 (1976), lawyers successfully challenged the discriminatory siting and tenant selection procedures of the Chicago Housing Authority. The Court found that four overwhelmingly white projects were located in white neighborhoods and the remaining 99.5 percent of the remaining family units, virtually all of which were occupied by black tenants, were located in black neighborhoods.

Public housing today still remains largely segregated, and studies have shown that housing officials throughout the country routinely locate housing for low-income persons in the poorest neighborhoods.[7] In 1985, Judge Wayne Justice found that public housing in east Texas was segregated by race: "Blacks live in one set of public housing sites, whites in another." Young v. Pierce, 628 F. Supp. 1037, 1043-44 (E.D. Tex. 1985). His general findings are confirmed by Judge Leonard Sand in the Yonkers case, United States v. Yonkers Bd. of Educ., 624 F. Supp. 276 (S.D.N.Y. 1985), and by the slew of other cases challenging discriminatory siting and selection policies in public housing throughout the nation.[8]

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[4] *See National Wildlife Fed. v. Marsh*, 721 F.2d 767 (11th Cir. 1983) (HUD may waive requirement that program benefit poor); D. Falk & H. Franklin, *Equal Housing Opportunity: The Unfinished Agenda* 142-49 (1976).

[5] *See* Selig, *The Justice Department and Racially Exclusionary Municipal Practices: Creative Ventures in Fair Housing Act Enforcement*, 17 U.C.D. L. Rev. 445, 498-500 (1984) (HUD has never referred an action for a refund under CDBG to the Justice Department); *Montgomery Improvement Ass'n v. United States Dep't of H.U.D.*, 645 F.2d 291 (5th Cir. 1981) (private right of action to enforce Community Act).

[6] *See Young v. Pierce*, 628 F. Supp. 1037, 1045 (E.D. Tex. 1985); Comment, *The Public Housing Administration and Discrimination in Federally Assisted Low Rent Housing*, 64 Mich. L. Rev. 871 (1966).

Congress should explore ways to prevent siting and tenant-selection criteria that perpetuate segregation.[9] It will not be enough, however, for HUD to stop funding local public housing authorities which permit discrimination: Congress must also act affirmatively to enhance HUD's authority under Title VI to end discrimination and to provide the means to redress the effects of decades of discrimination in public and federally-subsidized housing.

The Legal Defense Fund is exploring the extent to which scattered sites programs divert funds from very low income persons and might themselves lead to serious racial and economic discrimination. The Housing Authority of Houston, for example, has committed $5.4 million federal dollars initially earmarked for construction of a 105 unit public housing development to purchase 121 foreclosed homes for rental by low and moderate income tenants. The scattered sites program represents an innovative approach to housing problems. However, the administration of the program can easily prevent those who are most needy -- a disproportionate number of whom are black or other minorities -- from receiving housing assistance; only families with a minimum salary and a good credit history are eligible for participation in the Houston Scattered Sites program.

III. Discrimination in Municipal Land Use Regulations

It is now well settled that 42 U.S.C. § 3604(a), making it unlawful for any person to "make unavailable or deny ... a dwelling to any person because of race," prohibits zoning or other land use regulations that discriminate against minorities. The courts are split, however, on the evidence necessary to prove a violation of § 3604(a). While some courts hold that a showing of disparate impact on minority groups is sufficient to establish a prima facie violation,[10] other courts have determined that a plaintiff must show discriminatory intent as well as impact to establish a violation of the Fair Housing Act.[11] The Supreme Court has never ruled on whether discriminatory impact alone is sufficient to prove a violation of Title VIII.

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[7] See Citizen's Commission on Civil Rights, A Decent Home (1983); Taylor, Brown, Equal Protection, and the Isolation of the Poor, 95 Yale L.J. 1700, 1729 (1986).

[8] See, e.g., Project BASIC Tenants Union v. Rhode Island Housing & Mortgage Finance Corp., 636 F. Supp. 1453 (D.R.I. 1986); Adkins v. Metropolitan Dade County, (D. Fla. 1987).

[9] See Miller & DePalko, Desegregating Public Housing: Effective Strategies, 43 J. Housing 9 (Jan/Feb 1986).

In *Kennedy Park Homes Ass'n v. City of Lackawanna*, 436 F.2d 108 (2d Cir. 1970), LDF successfully challenged exclusionary zoning decisions by which New York City prevented construction of a low income housing project in a predominantly white middle class neighborhood. Although the court ordered relief in that case, it recognized the pervasiveness of the problem. "The pattern is an old one and exists in many of our communities." *Id.* at 109. Recent decades have seen the imposition of minimum lot size requirements, frontage or large building setbacks, and the exclusion of multifamily housing, all of which have the effect of depriving minorities and the poor in the private market for housing of the opportunity to live in and enjoy the resources of the American suburbs. The imposition of an intent requirement by some lower federal courts in Title VIII cases substantially hampers fair housing challenges to exclusionary municipal practices. A focus on "intent" shifts the inquiry from the discriminatory effect of a practice to a search for the elusive smoking gun.[12] Congress should clearly provide that a municipality may not adopt zoning or land use practices that effectively keep minority members out, inadvertently or not, without a compelling interest.

Congress should also address the remedies available when a jurisdiction has violated Title VIII. In an inflationary era, courts have been reluctant to order relief that would be sufficient fully to remedy the statutory violation. According to one prominent commentator, the issue of remedies is "the most frustrating aspect of challenges to exclusionary land use controls." J. Kushner, *Fair Housing* 392 (1983). It is also one of the most important. If the nation is to fulfill the goal of achieving "truly integrated and balanced living patterns," *Trafficante v. Metropolitan Life Insur. Co.*, 409 U.S. 205, 211 (1972), Congress must insure that the courts have ample direction to redress, in full, all violations of Title VIII.

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[10] *See* *United States v. City of Black Jack*, 508 F.2d 1179 (8th Cir. 1974), *cert. denied*, 422 U.S. 1042 (1975); *Resident Advisory Bd. v. Rizzo*, 564 F.2d 126 (3d Cir. 1977).

[11] *See* *Smith v. Town of Clarktown*, 682 F.2d 1055 (4th Cir. 1982); *Metropolitan Housing Dev. Corp. v. Village of Arlington Heights*, 558 F.2d 1283 (7th Cir. 1977), *cert. denied*, 434 U.S. 1025 (1978).

[12] *See* Jorgensen, *Tearing Down the Walls: The Federal Challenge to Exclusionary Land Use Laws*, 13 Urb. Law 201 (1981); Selig, *The Justice Department and Racially Exclusionary Municipal Practices: Creative Ventures in Fair Housing Act Enforcement*, 17 U.C.D. L. Rev. 445, 460 (1984).

While the federal government is the agency of last resort for the integration of housing, responsibility does not rest with it alone. In some circumstances, state and municipal governments, with federal assistance and incentives, can be particularly effective agents for change. Congress should investigate the financial incentives, tax credits, or assistance necessary to encourage local governments to remove the barriers the poor now face in moving into the economic and social mainstream.

IV. *Changes in the Fair Housing Act*

In addition to settling the issue of whether impact alone is sufficient to establish a violation of Title VII, Congress should redress several shortcomings in the Act's enforcement mechanism. Although private suits under Title VIII have accomplished a great deal in ridding the housing industry of discrimination, the costs of litigation provide disincentives for any single individual to challenge a discriminatory practice. Consequently, the Legal Defense Fund supports a strengthened role for HUD and the federal government in the enforcement of the Fair Housing Act. Legislation now in Congress may address several of these problems, but if it is not passed this session, it should be incorporated into this Subcommittee's new bill.

As early as 1972, the Supreme Court recognized that the federal enforcement mechanisms of Title VIII were woefully inadequate to meet the task of eliminating discrimination in housing. *Trafficante v. Metropolitan Life Insur. Co.*, 409 U.S. 205, 210-11 (1972). HUD itself has no power of enforcement, and the Justice Department is restricted in the suits it may bring by the "pattern or practice" requirement.

The Legal Defense Fund believes that, in addition to granting HUD the power to initiate lawsuits, Congress should consider giving HUD the authority to issue cease and desist orders while a complaint is under consideration. Such authority would provide HUD the means by which to preserve the status quo and prevent ongoing discrimination pending further investigation.[13]

Congress should also consider strengthening the remedies available in pattern and practice litigation. The majority of courts that have considered the issue have held that the government may not seek monetary damages on behalf of individual victims in a pattern and practice lawsuit.[14] The injunctive relief available in a pattern and practice lawsuit however is not sufficient to deter prospective violators of the Fair Housing Act. Only the award of monetary damages can provide the "spur or catalyst" that encourages those who have discriminated "to endeavor to eliminate, so far as possible, the last vestiges of an unfortunate or ignominious pages in this country's history." Albemarle Paper Co. v. Moody, 422 U.S. 405, 418 (1975). We suggest adding monetary damages to the type of relief government can get in pattern or practice lawsuit.

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[13] *See* D. Falk & H. Franklin, *Equal Housing Opportunity: The Unfinished Federal Agenda* 61 (1976).

CONCLUSION

The Housing Acts of 1937 and 1949 and the Fair Housing Act of 1968 were all tributes to a great national vision. In that vision, all Americans would be decently housed in a secure home in a safe community. Implicit in those statutes was the recognition that such a future could only come about only with strong federal involvement. As the country approaches the year 2000, the Legal Defense Fund believes that it is time for the federal government to recommit itself to fulfilling those promises and create an environment in which all individuals are insured a home.

We thank you for your invitation to participate in this important process. The Legal Defense Fund would like to continue its involvement and participation in the development of the Subcommittee's thinking and we would appreciate you including us in all future discussions as the bill moves through Congress.

Sincerely,

Julius L. Chambers
Director-Counsel

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[14] See, e.g., United States v. Long, 537 F.2d 1151 (4th Cir. 1975); United States v. Mitchell, 580 F.2d 789 (5th Cir. 1978); United States v. Rent-A-House Systems of Ill. Inc., 602 F.2d 795 (7th Cir. 1979).

Perspectives on
The Management of
Federally Assisted Housing

Challenges for the Eighties
and Beyond

Prepared by
The National Advisory Council
of HUD Management Agents

October 5, 1987

The National Advisory Council of HUD Management Agents

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The Honorable Alan Cranston
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United States Senate
Subcommittee on Housing and Urban Affairs
Room 5-D-535
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Dear Senators Cranston and D'Amato:

On behalf of the forty-six member National Advisory Council of HUD Management Agents, allow me to take a moment to congratulate you on your initiative and forethought as you begin a major review of national housing policy for the eighties and beyond. I'm sure we join the others in expressing our sincere appreciation to you for providing us the opportunity to comment on this timely and important matter.

Let me please take a moment to describe the National Advisory Council of HUD Management Agents as I believe that this organization is illustrative of a true public private partnership that works. Formed in 1975, the National Advisory Council of HUD Management Agents is an independent body of property management firms and associations who, together, manage the majority of all privately owned government assisted housing in the country. We work together to preserve the existing stock of federally assisted housing and to improve the quality of management of that housing. We are in constant dialogue with the regulatory agencies on procedures, practices and regulations that will make housing work better. We also try to practice what we preach.

The commitment of the National Advisory Council to bridge the interests of both the public and private sector in the housing arena is no more vividly demonstrated than by our formation this year of a Preservation Task Force. For years, the National Advisory Council has worked with HUD and the Congress in an effort to foster a sound national policy concerning the preservation of federally assisted housing. We have felt qualified to do so, as owners and housing managers, as we fully understand both the day to day issues as well as federal policy and its effect upon this vital national resource. By way of example, the National Advisory Council was instrumental on calling for the development of a program providing necessary funding for capital improvements for those projects in need. Particularly among these are the projects developed under the HUD BMIR and Section 236 programs of the early seventies. We strongly believe that a fiscally responsible program which offers owners and managers funding for capital improvements is

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absolutely necessary if we are to avoid the wholesale deterioration of this vital housing resource. In the absence of a major new construction initiative such as we saw under the Section 8 program, which would offer suitable replacement housing to supplement our aging stock of low and moderate income housing, a program providing capital improvements funding is considered by this organization to be an essential building block of federal housing policy.

The Preservation Task Force to which I refer is an outgrowth of our continuing commitment to the development of a national policy on preservation of the existing inventory of low and moderate income housing. Formed in April of this year, the Preservation Task Force chaired by former Advisory Council Chairman G. Lindsay Crump, is comprised of twenty-five respected members of the housing community. Their collective experience in the housing arena and their concern for the preservation of the existing inventory has been captured by the Advisory Council in an effort to develop a more disciplined approach to preserving the federally assisted inventory in a cost effective and responsible manner. The task force has been charged to look at five major issues affecting preservation; these include the expiration of existing subsidies, the development of incentives for owners to maintain this housing as low income, a review of the impact on tenants, and analysis of the effect of the prepayment of HUD assisted mortgages, and lastly, a look at the roles which can be played by state and local government in preservation.

Among the most timely and critical issues we have and will continue to face within the task force is the issue of prepayment of HUD assisted mortgages. In the relatively short time that we have been meeting, the so called prepayment issue has emerged as the pre-eminent preservation issue. This is the case for two fundamental reasons:

1. The potential loss of low income units from the existing inventory;
2. The potential displacement of low and moderate income persons from the inventory as result of rent increases or conversions.

Make no mistake, there are and will remain very real concerns which must be addressed. However, there is a no less fundamental issue here, one which has major policy implications for Congress and the Administration as we begin to chart a responsible course for the 1990's in housing. The right of prepayment is a fundamental right clearly articulated in the contracts executed by owners participating in HUD's BMIR, Section 236, and Section 221 (D) (4) programs. It is this right and the expectation that it creates that has guided the business decisions of many owners. However, it is this same right that today clouds the preservation picture. Well intentioned owners, who for twenty years have maintained properties in a sound and fiscally responsible manner, are today faced with potential arbitration of their right to prepay. There is today an unhealthy air of concern and expectation that owners will arbitrarily and without just consideration displace tenants, raise rents or convert to condominiums. It must be made clear if we are ever to develop a sound policy on this issue that among the universe of all federal assisted housing owners, only a portion will want to convert following a prepayment, only a portion can, in fact, convert as a result of economic and market considerations and among those that do convert, there is, in our eyes a rational understanding that tenant interests must be addressed. Our position should be clear, that owners who do not or will not take the interests of tenants to heart are the exceptions. The issues generated by their actions should be dealt with separately. Among the universe of owners who want to prepay and who will act responsibly in doing so we have offered our best efforts as an organization to bring their rights face to face with the public purpose concerns of the Congress. At the Task Force level to which I refer, this issue is the nexus of our activity. Development of a sound and rational approach to this issue, in the last analysis, will probably be the single most important contribution we can make to the work of the Congress in the development of a housing policy for the future. However, our work in the field of preservation is much broader. We will also focus a great deal of attention on those projects which continue to require federal assistance. We will attempt to define the most appropriate ways to maintain these projects as viable rental housing for those who need it the most.

The work of the Preservation Task Force has been underway since April of this year. Our final report addressing the broad range of issues affecting the preservation of low and moderate income housing will be finalized in November. We look forward to sharing our findings with you and hope that our work will be or much assistance to you as you create a new housing policy framework.

To supplement our efforts in the field of management and preservation, the National Advisory Council has undertaken the development of a major program and policy assessment related to housing management.

Our work "Perspectives on the Management of Federally Assisted Housing--Challenges for the Eighties and Beyond" will address eight separate topics; topics which, in our opinion, must be analyzed in the context of a renewed look at housing policy. Our report will include the following:

- A historic overview of federal housing policy affecting the management of federally assisted housing

-- The role of the private sector in the management of federally assisted housing

-- Challenges for today's housing manager

-- Assessing federal housing policy and its effects on management programs and practices at the local level

-- Addressing the needs of lower income persons - a management perspective

-- Management and the role of not for profit entities

-- Preservation of federally assisted housing - a policy overview

-- Training the housing manager of the future

-- The road from here - the future of federally assisted housing management

Our report will be a compendium of essays on the above referenced topics written by experienced professionals each of whom have more than ten years of hands-on knowledge of federal housing programs. Our goal is to complete this report for presentation to you in early November. We hope that it will provide you with a series of insights and recommendations that you will find useful in the weeks and months ahead. We stand ready to assist you in anyway possible. Please feel free to call upon us.

I hope this letter has been a useful prologue for a period of constructive dialogue on housing policy. I look forward to working with you both in the challenging months ahead.

Sincerely,

Daniel B. Grady

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PROPOSAL TO CODIFY THE HUD INDIAN HOUSING PROGRAMS UNDER ONE TITLE IN THE U.S. HOUSING ACT

July, 1987

Over the past several years, it has become increasingly clear to the administrators of the HUD Indian housing programs that the development and management of Indian homes is quite different from the development and management of public housing in the nation's cities. However, for most Indians on trust land, the HUD programs are the only means available for them to obtain decent and safe housing. While the United States Housing Act was passed in 1937 to provide assisted housing to the nation's poor, it wasn't until 1961 that the Department of Housing and Urban Development administratively decided that it could serve Indian families on reservations with the Public Housing Program. The Indian and Alaska Native housing programs have which have evolved from this decision (Old Mutual Help, New Mutual Help, Turnkey III and Low-Rent) are characterized by single family detached units, over 60% of which are homeownership units, a homogeneous population, and remote rural locations often lacking paved roads and basic water and sanitary sewer infrastructure. In addition, two basic facts must be understood about Federal efforts to house Indians: first, there exists a trust relationship between the Federal government and Indian peoples; second, the cultural traditions of American Indians have been substantially different from those of non-Indians.

Currently, the 1937 Housing Act and its amendments do not recognize the critical differences between the Indian and Public Housing Programs. Most amendments are directed to the improvement of public housing which may or may not be applicable or appropriate to meeting the housing needs in Indian Country. Specific examples are given below to illustrate some of the problems encountered when Indian housing authorities (IHAs) apply the public housing statute and regulations to reservation residents. Many proposals have been made to Congress and the Administration regarding the improvement of the Indian housing delivery system. Few have been seriously considered. It is well documented that problems associated with the administration of the Indian housing programs are numerous, complex and difficult. Simplification is a must if HUD and IHAs are to efficiently manage their responsibilities. A first step to simplifying the program is to systematically arrange the laws and to consolidate the regulations that apply to the HUD Indian housing programs. The consolidation of the regulations is in the clearance process at HUD. What is also needed is to consolidate the laws of the 1937 Housing Act so that the programs that they enact can be found in one place, in logical order, so that appropriate study and recommendations can be made to address those areas that are outdated or not applicable to the delivery of housing to Indians.

Three of the four HUD programs serving Indians are designed for ultimate homeownership: Old Mutual Help, New Mutual Help, and Turnkey III. Homes developed under the Mutual Help Homeownership Programs have no counterpart in public housing, yet they comprise more than 60% of the units administered by IHAs. One example of inappropriate legislation is the requirement that 95% of all public housing tenants be very low income. This excludes Mutual Help recipients because very low income tenants cannot afford the requirements of homeownership: no operating subsidies are available for maintenance or utilities under these programs. Another example is the recently passed request to use excess operating subsidies to provide relief to PHAs for increased costs in required insurance coverages. Mutual Help homebuyers are excluded because they are not eligible for operating subsidies--but their cost of coverage has nearly tripled. HUD, Congress and the PHAs simply forgot to develop a means of providing relief to all public housing participants.

The Indian housing programs do serve a different population: the trust nature of the land prohibits alienation and no other means of financing new housing is available to the Indian population choosing to stay on their homelands. Homeownership opportunities must stay available to them. While legislation in process would change the 95-5% rule, for the past few years this rule has been a burden to Indian communities and was applied to them without thought to the existing homeownership programs. In addition, legislation that extended Annual Contributions Contracts for ten years voided existing Mutual Help Agreements which were term specific!

Problems that exist in the homeownership programs could better be addressed if Indian housing legislation is codified and separated from the Public Housing Program, and regulations are consolidated. Solutions in the form of amendments or new regulations would also be easier to implement as they would only apply to Indian housing and not have to be "exceptions" to public housing. Often, the Housing Act amendments demand time--consuming regulatory and handbook interpretations to be developed before Indian field offices and Indian housing authorities can respond appropriately. Indian housing authorities, for example, are still waiting for HUD to determine what applies to homeownership agreements under the "debt forgiveness" language included in the 1986 Omnibus Reconciliation Act. Tribes want to know if their citizens now own their homes. Indian housing authorities also need to know so that they can plan accordingly. This issue is of no concern to public housing tenants in rental units.

Currently the Indian housing programs have separate development and administrative procedures than public housing. However, in order to discover the origins and intent of HUD's Indian Housing Programs, one must search through forty years of statutes creating and amending the Public Housing Program. A separate title under the U.S. Housing Act codifying the laws relating to Indian housing would improve the chances of analyzing and refining the program. It would also state that it is the policy of the United States Government to assist American Indians and Alaska Natives in obtaining decent, safe and sanitary housing.

CHARACTERISTICS OF INDIAN AND PUBLIC HOUSING:

Following are some of the differences between the two programs:

	Indian Housing	Public Housing
Housing Type	Single family detached scattered site.	Multifamily
Environment	Remote rural areas; scattered site; most units need infrastructure; restricted title (i.e., trust lands).	Majority of units in projects in urban or town settings; Most projects do not need infrastructure.
Program Emphasis	60% Homeowner, 40% rental	Over 98% rental
Market	No other alternative assisted or private sector housing available; vacancy rates almost non-existent.	Various other assisted or private sector housing available.
Tenant Issues	No active tenant groups	Active tenant groups
Housing Authority Size	Majority of IHAs have under 500 units with fewer than than 5 staff. Most staff from local area (more effective, less training, low pay).	Various size PHAs-majority of PHAs have over 2500 units. Staff generally professionally trained and well paid.

CHARACTERISTICS OF INDIAN AND PUBLIC HOUSING:
(continued)

	Indian Housing	Public Housing
Major Problems	-Management capacity, -Rent collections -Staff turnover -Coordination with Bureau of Indian Affairs (BIA) & Indian Health Service (IHS) -Funding for infrastructure	-Condition of units/ -Maintenance/ rehabilitation -Union wages -Tenant advocacy

STATUTORY, REGULATORY AND POLICY DIFFERENCES BETWEEN PUBLIC AND INDIAN HOUSING

Program Area	Indian Housing Unique	Indian Housing Same as Public Housing
Development	Separate regulations handbook & some forms	
	Indian Preference statutory requirements rather than Title IV and VIII Equal Opportunity Requirements.	
	Separate cost containment policies.	
	Separate fund allocation approach/methodology.	
	Separate requirements & procedures for Interagency coordination (BIA, IHS & HUD).	
	Infrastructure - i.e., BIA surveys, in some cases, have never been made; no air photos available, have to start surveys from scratch; roads may be have to built, both off-site and on-site water and sanitary sewage disposal must be developed or expanded.	
	Logistics of getting materials to site can be extraordinary - i.e., in Alaska, if all materials aren't ordered and on barge from Seattle by July 4th, you may have to wait to build until following summer or double cost of construction to fly in missing parts.	

STATUTORY, REGULATORY AND POLICY DIFFERENCES BETWEEN PUBLIC AND INDIAN HOUSING
(continued)

Program Area	Indian Housing Unique	Indian Housing Same as Public Housing
	Tribe may dictate where homesites are - i.e., clan lands IHAs may be managing and developing units up to 750 miles apart - Planned units "cluster" or development sites often were a mistake in early site planning on some reservations; became ghettos; scattered sites preferred for traditional occupance.	
Occupancy	Mutual Help Program is authorized separately in the statute; it has separate regulations & handbook.	IH & PH have reexamination & income deduction policies; PH & IH have the same rental & Turnkey III family rent & utilities policies.
	Income limit policies different for all Regions but Oklahoma. Lease and grievance policies different from PH and IH. Cultural and political differences abound; before PH program people did not pay rent; IHA policies and procedures must mesh with tribal policies.	

STATUTORY, REGULATORY AND POLICY DIFFERENCES BETWEEN PUBLIC AND INDIAN HOUSING
(continued)

Program Area	Indian Housing Unique	Indian Housing Same as Public Housing
	Performance Funding System does not work well for small IHAs; many IHAs have less than 100 units with 1 - 2 staff. Same expense criteria used but no factor for additional costs for servicing in remote locations, scattered sites.	
Financial Management	Unique operating subsidy regulations for Mutual Help; Unique operating subsidy policy for Alaska IHAs	PFS statutory & regulatory requirements apply to IH rental programs but do not provide accurate subsidy levels & should be changed. Financial management policies are the same for PH & IH.
	Indian self-insurance pool	Cash management and investment policies are same for IH and PH.
CIAP		Same policies for IH and PH but program is too complex for IH. CIAP is oriented to apartment building renovation.

RECOMMENDATIONS
FOR THE
1988 SENATE HOUSING BILL

submitted
October 5, 1987

to the
Housing and Urban
Affairs Subcommittee
of the
Banking, Housing and Urban Affairs Committee
of the United States Senate

by the
National Association for
Senior Living Industries

The National Association of Senior Living Industries (NASLI) wishes to thank The Honorable Alan Cranston, Chairman of the Housing and Urban Affairs Subcommittee, of the Banking, Housing, and Urban Affairs Committee of the U.S. Senate for the opportunity to submit recommendations for national housing legislation, that will have a positive impact on the development of housing and related services for seniors at all income levels. NASLI considers it imperative that the Committee include senior housing issues on its agenda.

- The housing of seniors represents a substantial percentage of the total housing market in the immediate and foreseeable future.
- In round figures, 72% of people sixty-five years of age or older own the property they live in. 23% are renters. 5% are institutionalized, mostly in health care facilities.
- Seniors spend a greater proportion of income on housing than any other age group.
- More than fifty percent of people sixty-five years of age or older occupy housing which is thirty years old or older.
- Seniors are the owners of most of the household owned housing stock in this country.
- Senior housing requirements often differ from those of the general public, and these unique characteristics often require special consideration.
- Current tax laws and administrative policies mitigate against the development of housing appropriate to the senior occupant, and against the maintenance of currently designated senior housing stock.

Background on NASLI

NASLI was founded in 1985. Its diverse membership currently includes over 800 major corporations, consumer organizations, academic institutions and governmental agencies represented by over 1,100 delegates. As a multi-disciplinary organization, NASLI has a unique charter. It provides the only national forum for airing the often divergent perspectives of all those concerned with improving the quality of senior living, whether for housing, transportation, social and personal services, food, clothing, or other needs of the burgeoning senior market.

NASLI's purpose is fourfold:

- To redefine the meaning of aging and retirement consistent with today's changing society.
- To promote the independence of seniors through industry-wide understanding and appreciation of the older person's needs.
- To improve industry skills to contribute to a better quality of life for seniors with greater self-reliance.
- To foster a sense of "empowerment" that promotes opportunities for elders to apply their experience and skills consistent with their energies and interests.

NASLI is the major resource network of organizations and professionals devoted to meeting the shelter, health service and consumer product needs of the older population. It is both catalyst and standard setter for businesses and service organizations considering ways to serve older adults.

It is necessary to restore certain tax benefits reduced or eliminated in the Tax Reform Act of 1986, in order to alleviate an otherwise inevitable decrease in the development and maintenance of unsubsidized low and moderate income rental housing.

The availability of moderate and low cost rental housing is particularly significant for seniors, many of whom live on fixed incomes. While the general economic position of our older population is improving, the majority have relatively low incomes, with 21% of persons over 65 near or below the poverty line.

According to an analysis prepared for the Neighborhood Reinvestment Corporation, the Tax Reform Act of 1986: 1) reduces the value of deductibility of interest and real estate tax expenses; 2) increases the depreciation period from as few as 15 years to 27.5 years; 3) repeals capital gain preferences thus eliminating any difference between taxes paid on ordinary income and taxes paid on capital gains; 4) further restricts the ability of states to issue tax exempt bonds which, in recent years, have provided below market interest rate financing; and 5) substantially reduces the ability of limited partners to invest in real estate to obtain losses which help reduce tax liabilities resulting from other income.*

NASLI urges the Committee to consider legislative action to encourage investors in, and developers of, senior rental housing to put their financial resources and expertise to work on building and renovating rental units for moderate and low income seniors.

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*Phillip L. Clay, "At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources", Massachusetts Institute of Technology, Cambridge, MA, May 1987, p. 24.

Recently enacted federal tax law has negative implications for investors and developers who desire to make available moderate and low income rental housing either through new construction or renovation of existing housing stock. While recognizing the importance to the U.S. economy of participating in programs which increase available rental housing for seniors at all income levels, investors and developers generally consider their hands tied by tax law restrictions and disincentives.

Currently, Federal tax law provides no real incentive to invest in and develop low and moderate income rental housing. As a consequence, investors are likely to favor profit making construction opportunities skewing the development of housing away from moderately priced rental units. What tax incentives do exist in the Tax Reform Act are so complex as to be practically unusable.

Although it is too early to document the impact of the changes in Federal tax law on the availability of rental housing, logic dictates that the result of the inevitable reduction of available rental units will be both a decline in total number of units, and a substantial increase in the rents for those units that are on the market. NASLI foresees that people of all ages will compete for occupancy of a dramatically dwindling stock of reasonably priced rental units. The National Association of Home Builders has predicted a rent increase of 20% for units across the board if building cannot keep pace with demand.

The Committee should take a strong position in regard to the preservation of properties for low and moderate income rental units. The Department of Housing and Urban Development should have imposed legislated requirements forbidding the sale of designated moderate and low income rental properties. These properties financed through HUD resources, or FHA insured, and substantially occupied by recipients of Section 8 subsidies must not now be converted to market rate users, thus compounding the problem of available rental units for the vulnerable elderly population as well as for others in need of low cost rental housing.

Furthermore, current tax law encourages owners to upgrade rental properties which, in locations where supply of rental units is limited, will result in a rise of rents. This in turn is likely to lead landlords to rent units to more affluent tenants. Such a trend will foreclose rental housing to those sectors of the population who cannot afford to purchase homes.

Congress should enact legislation establishing a National Community Housing Partnership Program which addresses the housing needs of all persons with low and moderate incomes, including seniors.

NASLI supports, in principle, the proposal of the National Coalition on Low Income Housing (NCLIH) for a National Community Housing Partnership Program, although it is not prepared at this time to comment on the specifics of that program. The NCLIH is proposing the creation of a federally sponsored program to encourage and assist non-profit sponsors to construct and rehabilitate low and moderate income housing projects. Under this program, the federal government through HUD would participate with states, cities, non-profit organizations and foundations, where these entities provide matching funds to augment federal assistance to low and moderate income housing projects. The financial assistance provided by this partnership might support activities such as:

- Project specific technical assistance
- Project specific seed money loans
- Project specific matching grant or loan
- Program wide nonprofit support.

NASLI's concern for improving the quality of life for seniors extends to all economic groups. Those among our members who invest in or develop senior housing recognize the urgent national need for more affordable housing for the majority of seniors who cannot afford most of the upscale housing currently being built or renovated for the senior market.

The program would stimulate development of multi-family and single room occupancy rental units as well as limited equity cooperatives, condominium and single family homes. Occupancy would be income limited.

Unfortunately, with the advent of the Tax Reform Act of 1986 and the decline of direct federal support for low income housing, developers of senior housing, just as housing developers generally, are unable to commit substantial assets to projects that result in almost certain financial loss. Through a program such as that proposed by NCLIH it would be possible for the private sector to participate with governmental and nonprofit sponsors in providing for the housing needs of moderate and low income seniors.

Congress should enact legislation supporting and providing seed money for an organization within the senior housing industry to establish national standards for accreditation of senior housing facilities, and to provide accreditation to those facilities, nationwide, which comply with these standards once they are set.

Historically, the senior housing industry has experienced some loss of credibility with older persons because a small percentage has been victimized by uncertain financing, the poor quality of housing, or mismanagement. Seniors, because they cannot readily recoup their lost assets, are especially aggrieved when housing projects in which they have invested are financially distressed, go bankrupt, or dwelling units are poorly constructed or poorly managed.

As an association whose membership serves the senior market, a NASLI objective is to assure that the facilities, products and services which its members provide to consumers are reliable, safe, and of good quality, that financing is sound and management competent. Although some states have enacted statutes requiring that certain types of senior housing meet specified financial criteria as a prerequisite to marketing, there are no nationally recognized accreditation programs for senior housing.

The establishment of such a program by a national, private, non-profit organization of substantial visibility within the senior housing industry, would serve in several ways to upgrade the quality and reliability of products and services marketed to seniors.

Accreditation of senior housing facilities in accordance with generally recognized standards would:

- Establish a regular evaluation process whereby objective evaluators can identify early warning signs of problems with a facility and recommend corrective action;
- Identify a particular body whose accreditation would be acceptable to state and federal licensing agencies as a prerequisite for granting a license or providing funding to senior housing facilities requesting licensure or funding;
- Create incentives for managers of senior housing facilities to provide in-service training to upgrade the skills of staff, where achievement of certain standards of competence for such staff is a prerequisite to accreditation.
- Improve the credibility of specific facilities in the mind of the public.
- Assure that resident transfer policies are properly drawn and administered to protect residents rights when another level of care may be needed.

NASLI believes that it is more appropriate for a private, nonprofit organization strongly identified with the senior housing industry to set industry standards for accreditation than a governmental regulatory agency would be. For example, the standards for and accreditation of hospitals have been promulgated by the Joint Commission on Accreditation of Hospitals, whose members are 5 prestigious national private health organizations. Currently, licensing and accreditation of senior housing varies substantially among states, both as to what types of facilities are subject to accreditation or licensure rules, and as to the scope of these rules. State-by-state regulation is problematic for investors, developers and managers of senior housing, especially for firms that market to seniors in several states. The establishment of an objective industry standard setting and accrediting body, acceptable to consumers, regulators and providers of housing would serve the needs of all those concerned about provision of reliable, good quality senior housing.

Congress should enact legislation to provide funding to accelerate training and educational programs in order to upgrade the performance of staff who have direct or indirect responsibility for the well being of senior residents.

NASLI directs the Committee's attention to the shortage of personnel qualified for skilled positions in senior housing facilities. Much of the available training is inadequate, and although certificate programs exist, issuance of a certificate frequently is not contingent on the achievement of measurable levels of performance in the training. Furthermore, the training itself may not be designed or carried out in accordance with generally accepted curriculum requirements.

University based courses are generally of high quality. University based continuing education programs provide flexibility for those who want to improve themselves professionally while working. Consequently, while Congress should generally encourage education and training for persons working in senior housing, it should limit certification to recognized institutions of higher education which are capable of developing curriculum, providing faculty, and offering educational and training opportunities, which demonstrably result in upgrading the job-related performance of senior housing staff.

Congress should establish a national body widely representative of the public and private sectors to advise it on housing policy, including senior housing policy. This body should be sufficiently free from immediate political commitments so that it can provide a longer range perspective on national housing policy than the current policy processes permit.

Housing policy is particularly vulnerable to manipulation by politicians and economists because it involves a basic necessity -- shelter -- around the provision of which a vast industry has grown. Historically, housing policy has frequently been molded to achieve immediate economic objectives at the expense of longer range social goals. It is important for policy makers to remain aware that the housing stock of this country is not simply the asset of title holders. It is one of our most valuable national assets, deserving of the same high level of protection and consideration that we demand for our national park lands or our national highway system.

The U.S. needs a mechanism for debating housing policies of national stature -- which debate includes not only political and economic consideration but social, demographic, psychological and environmental issues as well. In addition to reaching consensus on the most appropriate policy recommendations to Congress this body should have the ear of successive administrations. This requires designation of prestigious experts in various aspects of housing, social philosophy, and public policy, who have the capacity to critique long term implications of various proposals.

An advisory body to Congress might, for example, review current housing programs to determine whether they are achieving their original objectives, or whether these objectives continue to be valid as national policy goals. It might also propose innovative approaches to federal/state/private sector cooperation in using existing and new housing stock more effectively, or suggest new priorities for providing housing.

In the area of senior housing, a national body reporting to Congress would be ideally positioned to broaden the debate on long term care beyond its current medically-oriented stance to one which encompasses senior housing issues. By focusing on the residential aspects of long term care, there may be national recognition that many older persons in need of social, personal, or financial assistance over the long term, can be adequately cared for without involvement of expensive health care resources and facilities.

Conclusion

The Committee is undertaking a complicated but essential task in reviewing and recommending new directions for housing in the United States. NASLI congratulates the Committee on its initiative and expresses its interest in participating on behalf of the senior living industry in the Committee's deliberations in any way the Committee considers appropriate. In particular, NASLI would appreciate the opportunity to share with the Committee additional concerns and legislative recommendations which, because of the press of time, it has been unable to include in this submission.

NATIONAL
ASSOCIATION
of
COUNTIES

440 First St. NW, Washington, DC 20001
202/393-6226

PROPOSAL FOR A NEW NATIONAL HOUSING POLICY

Prepared by a

SPECIAL HOUSING POLICY TASK FORCE

of

THE NATIONAL ASSOCIATION OF COUNTIES

Submitted to

THE SUBCOMMITTEE ON HOUSING

OF THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

October 5, 1987

NATIONAL ASSOCIATION *of* COUNTIES

440 First St. NW, Washington, DC 20001
202/393-6226

The National Association of Counties supports efforts in Congress to develop a national housing policy which addresses the critical need for decent and affordable housing. The nation has a housing crisis. Between 1974 and 1983, the number of rental units that were affordable for low-income households declined by over two million units while the number of rental households earning less than $10,000 increased by over 3 million. Less than 25 percent of low-income renters who need subsidized housing receive housing assistance. As a result, many low income households pay staggering percentages of their income on housing - 30, 40, or 50 percent, live in physically inadequate and overcrowded housing, or are homeless.

Moderate income as well as low income persons are adversely affected by the housing crisis. Construction of rental housing for both income groups has diminished as a result of reductions in direct federal expenditures for housing and the elimination or curtailment of tax incentives to investors. Many potential first-time homebuyers find themselves priced out of the conventional mortgage market.

The National Association of Counties adopted a resolution calling for formation of a special task force to develop proposals for a new legislative housing initiative. This task force feels that several principles should govern formation of a national housing policy:

1. Local governments have developed expertise in packaging and financing affordable housing. A national housing policy should capitalize on this expertise and provide local and state governments maximum flexibility in designing affordable housing programs which respond to local needs.

2. Congress should provide an adequate and predictable level of funding for housing.

3. National housing policy should encourage mixed income housing developments. Concentrations of low-income persons should be avoided.

4. Congress should modify federal tax code provisions to insure that tax-exempt finance and investment incentives are of maximum benefit in financing affordable rental housing.

5. Congress should encourage homeownership through various insurance and guarantee programs and modify and extend the Mortgage Revenue Bond program to assist first-time moderate-income homebuyers.

6. Congress should provide incentives to help ensure that existing low income housing stock is preserved for low income persons.

7. Congress should expand the federal government's role in credit enhancement.

A FEDERAL HOUSING BLOCK GRANTS PROGRAM

Block grants to local and state governments are an effective approach to community development, because they give local governments the flexibility to develop programs to respond to local needs. The National Association of Counties feels this is a model for the Housing Block Grants program that we propose.

Under a Housing Block Grants program, metropolitan cities and urban counties would receive direct allocations. State governments would administer the distribution of funds to small cities and nonentitlement counties.

Housing Block Grants would substitute for all categorical housing production and rehabilitation programs. Eligible uses should include, but not be limited to development acquisition and rehabilitation activities, direct loans, loan guarantees, interest rate subsidies, transitional and emergency shelters for the homeless, financing for mixed use developments and financing for alternative construction, like modular housing, where conventional financing is restricted. Local and state governments should be permitted to utilize the private sector, including nonprofit organizations where appropriate and feasible, to provide affordable housing opportunities through construction, ownership and management.

The formula for allocating Housing Block Grants to local and state governments should measure the availability and affordability of housing. In addition, consideration should be given to a measurement of local tax efforts for housing. Counties and cities which do not qualify for what the statute defines as a minimum entitlement should apply for assistance through the state administered program.

Local and state governments that apply for Housing Block Grants should be required to submit a Housing Assistance Plan

(HAP). Jurisdictions should prepare a single, comprehensive HAP which would be implemented with Housing Block Grants and other housing programs. The HAP should describe what the jurisdiction is doing with its own resources to facilitate housing and a plan to leverage private sector resources. Housing Block Grants should be used to create and expand housing programs, and not merely substitute for state and local housing efforts.

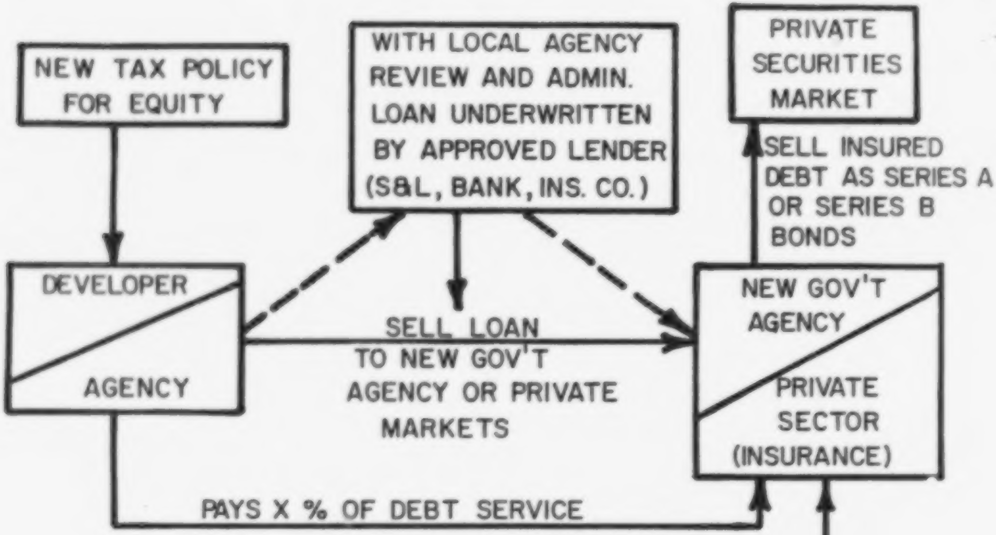
The federal government should continue to provide funding separate from Housing Block Grants for Section 8 certificates and vouchers. However, local governments should not be precluded from using Housing Block Grants to supplement rent subsidy programs. Separate funding also should continue for public housing operating subsidies and the comprehensive improvement assistance program. Despite their cost, deep subsidy programs are the only way to assist very low-income persons.

Local governments would have less administrative costs in a Housing Block Grants program than under the current categorical housing production and rehabilitation programs which have separate applications and deadlines, and different reporting requirements and regulations. A Housing Block Grants program would form an effective partnership between the federal, state and local governments and the private sector to develop creative strategies to address the affordable housing crisis as it impacts particular communities.

PRESERVATION OF EXISTING LOW-INCOME HOUSING

Expiring federal contracts and low-income occupancy restrictions have put at risk a substantial number of the 1.9 million privately-owned, federally-assisted, low-income rental units under the Section 8, Section 236, and Section 221(d)(3) programs. Some estimates indicate that as many as 900,000 units could be lost from the low-income stock by 1995 as mortgages are prepaid.

Prepayment of these mortgages could cause reconcentrations of low-income populations as developments in more marketable areas convert to market rents, while use restrictions continue on units located in more marginal areas. Congress should ensure that the existing, federally subsidized and insured low-income housing stock remain affordable for low- and moderate-income households. The following actions could assist in preserving this housing stock.



NEW TAX POLICY FOR EQUITY

DEVELOPER

AGENCY

WITH LOCAL AGENCY REVIEW AND ADMIN. LOAN UNDERWRITTEN BY APPROVED LENDER (S&L, BANK, INS. CO.)

SELL LOAN TO NEW GOV'T AGENCY OR PRIVATE MARKETS

PRIVATE SECURITIES MARKET

SELL INSURED DEBT AS SERIES A OR SERIES B BONDS

NEW GOV'T AGENCY

PRIVATE SECTOR (INSURANCE)

PAYS X % OF DEBT SERVICE

REMAINING DEBT SERVICE PAID BY GOV'T SUB.*
EQUITY PARTICIPATION ON SERIES B BONDS

* % OF SUBSIDY TIED TO PUBLIC POLICY

** STATE LOCAL GOV'T COULD ALSO PROVIDE ADDITIONAL SUB.

1. The federal government should develop incentives such as below market interest rate second mortgages and rehabilitation loans for owners who agree to continue use restrictions on the development for the duration of the mortgage or loan. Congress should consider raising the cap on the rate of return, thereby allowing developers access to more of their equity, provided the developer maintains use restrictions on the property.

2. The federal government should ensure replacement of any units that are lost from the low-income housing inventory on a unit per unit basis.

3. Tenant organizations should have first right of refusal to purchase developments in which the owner intends to prepay a mortgage. If a tenant organization and its designated nonprofit organization elect not to purchase the development, then local government agencies and finally state housing agencies should have the option to purchase the property.

FINANCING

The federal government must provide a tool to make private sector multifamily housing financially feasible. The housing task force of the National Association of Counties proposes the creation of a secondary market for below market first and second mortgages. The accompanying chart (see next page) describes the role of a new secondary agency.

Private lenders and local housing finance agencies would underwrite mortgage loans. Lenders would have to be approved and use standard lending criteria. Mortgages would then be purchased by a secondary market, either an arm of Ginnie Mae or a new government agency. The new agency would package the mortgages which would be sold on the private securities market as Series A and Series B bonds. A developer would be responsible for a previously agreed percentage of the debt service which would be determined by the public purpose nature of the project. The remaining debt service would be funded by the equity participation on Series B bonds or by government subsidy. State and local governments could provide additional subsidies. These bonds would be tax-exempt and have an FHA guarantee.

IMPACT OF TAX REFORM ON HOUSING

The National Association of Counties is concerned about the impact of the 1986 tax reform on housing. An immediate effect has been a substantial reduction in the issuance of tax-exempt bonds. Congress should modify the federal tax code to ensure that tax-exempt financing and investment incentives are of maximum benefit in financing affordable housing. The following are some of the revisions that Congress should consider.

A. Low-Income Housing Tax Credits

The housing task force suggests the following revisions to the low-income housing tax credits to make them a more useful tool for housing construction and rehabilitation.

1. The amount of the credit should be constant.
2. The maximum credit for new construction and rehabilitation of qualifying units financed with tax-exempt bonds should be raised.
3. The residency term and credit term should coincide.
4. Implementation of tax credits should be simplified by eliminating involvement by state and local governments in determining eligibility for the credits. Investors simply should be allowed to claim the credit for eligible units.

B. Depreciation

1. The period over which real property may be depreciated should be shortened.
2. Investors should be allowed accelerated depreciation for developments with low-income units.

C. Capital Gains

Congress should consider exempting sellers of multifamily rental property from capital gains taxes provided that the purchaser agrees to maintain or convert the units for use by low-income households.

D. Mortgage Revenue Bonds

Mortgage Revenue Bonds should be extended beyond the current sunset date. We further recommend raising the per capita limit, expanding the eligible uses of MRBs to include development costs to sponsors, and designating specific authority for MRBs apart from other state bond authority.

E. Tax-Exempt Multifamily Housing Bonds

Multifamily housing bonds should be subject neither to the current unified volume cap nor the alternative minimum tax.

GENERAL ISSUES

There are a number of issues which affect housing affordability and promote goals which should be integrated into a national housing policy. The following are some of the issues that should be addressed.

Davis-Bacon. Congress should weigh the impact of Davis-Bacon on housing costs and consider exempting housing from coverage altogether or developing guidelines which would allow payment of the actual local prevailing wages for construction programs.

Fair Housing. Congress should consider requiring all recipients of federal funds, irrespective of the source, to certify compliance with fair housing laws.

Community Reinvestment Act. Congress should examine ways to strengthen this Act.

Housing Reserve Funds. Congress should examine reserve funds for all housing programs, including those maintained for Section 202 projects and public housing, as potential funds for expansion of new units or creation of new developments.

The National Association of Counties reaffirms its resounding support for the Community Development Block Grant program. We look forward to working with Congress in developing additional federal tools which promote a new national housing policy for decent and affordable housing.

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RECOMMENDATIONS FOR FUTURE HOUSING LEGISLATION

National Association of Home Builders
October 5, 1987

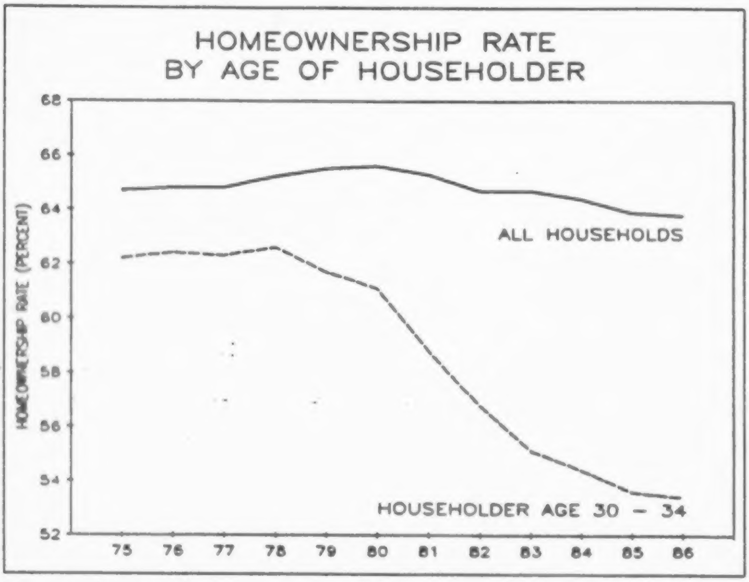
INTRODUCTION

Housing has always been and continues to be one of the highest personal and social priorities in America. Survey data indicate that homeownership is not only an individual desire, but is seen by most Americans as a public objective deserving of government support.[1] Indeed, decent and affordable housing is considered essential to the quality of life for all. Because of this, a variety of public policies have been pursued to ensure an effective system for the delivery of such housing to all Americans.

The results of these efforts include the long and steady rise in the homeownership rate from 44 percent in 1940 to 65 percent in 1980. Over the same period, the housing conditions of all segments of our society improved, often remarkably so. To sustain these gains in homeownership, and to assure continued fulfillment of the housing needs and expectations of all Americans, there must continue to be a positive and effective national housing policy.

In this decade, progress toward improved housing quality, reduced housing cost burdens, and more widespread homeownership has stagnated. In part, that stagnation has reflected cutbacks in Federal effort to meet the nation's housing needs, as housing programs have borne a disproportionate share of Federal budget cuts. The adverse impact of those budget cuts has been cushioned by the long-lived nature of the housing stock, a strong economic recovery and the long term obligations built into earlier housing programs. However, the adverse impacts will soon begin to accelerate as a result of the expiration of Federal and private commitments to provide low-cost housing for low and moderate income families. Moreover, recent changes in tax law have discouraged production and rehabilitation of rental housing.

Thus we are pleased that the Congress will be considering landmark legislation to revitalize national housing policy. This document indicates areas where we feel legislative action is most needed and, in many instances, provides specific recommendations. In doing so, we have attempted to learn lessons from prior and current experience with housing policies and programs and



The decline in the homeownership rate has been particularly dramatic for young households.
Source: U.S. Bureau of the Census, unpublished data.

have sought to combine the best of experience as well as new ideas.

At this we have made no effort to indicate priorities among these proposals, nor to match these ideas to limited resources. We realize that fiscal considerations need to be taken into account; deficit reduction is a high national priority for all of us. Therefore, we look forward to working with the Congress in developing priorities and determining the resources that will be required.

The National Association of Home Builders has analyzed these issues in several reports over the past few years. Our 1985 report entitled *Housing America: The Challenges Ahead* described the housing needs of the future and the problems posed by demographic, economic, and regulatory changes. Our 1986 report, *Low- and Moderate-Income Housing: Progress, Problems, and Prospects* documented the range of housing problems facing lower-income people and the erosion of

Federal efforts to help address those problems. That report also analyzed prospective problems due to expiration of government and private commitments to provide low-income housing and reviewed efforts at the state and local levels to provide housing assistance. In 1986, we also produced several analyses of the nature and impact of provisions in the Tax Reform Act of 1986 that affect housing. In 1987, NAHB joined with the National Association of Realtors and the Mortgage Bankers Association to produce a set of guidelines for housing policy under the title *Toward a National Housing Policy*. All of those reports are naturally available to the committee.

This submission offers a set of specific proposals based on the analyses and policy recommendations presented in those reports as well as on the efforts of a special Task Force formed by the current leadership of NAHB.

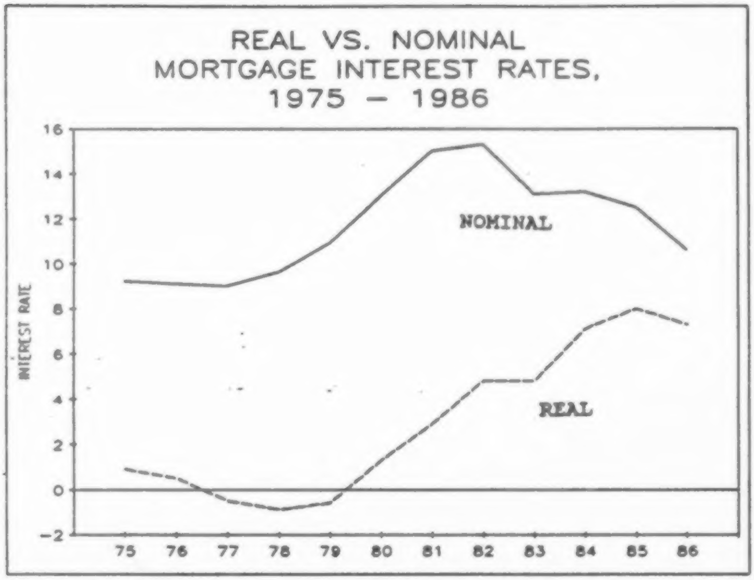
GOALS AND PRINCIPLES

We believe that governments at all levels have a responsibility to encourage and improve the affordability and availability of housing for their citizens, using the most cost-effective means at their disposal. Such policies benefit not only the direct recipients of assistance but also society as a whole.

Several recent analyses have made a sharp distinction between availability and affordability. Such a sharp distinction is somewhat misleading since availability and affordability are two sides of the same coin. The real issue is the availability of decent, affordable housing.

The evidence of the problem of affordability for renters includes large increases in the ratio of rent to income for renter households. As of 1983, the median rent to income ratio was 29 percent compared to 20 percent in 1970, and renters in the lowest income quintile in 1983 paid a median of 62 percent of their incomes in rent[2]. Between 1983 and 1986, rents increased by 18%[3], while the median income of renters increased 16%[4], so that the rental affordability problem has gotten even worse.

For home buyers, the key to affordability is the cost and availability of housing finance. There are several dimensions to housing finance that are relevant. First, there is the problem of the down payment and other up-front costs. The availability of FHA-insured and VA-guaranteed mortgage loans (plus FmHA financing in rural areas) has been vital to assuring that such up-front costs are not an insurmountable barrier. Second, there is the problem of the affordability of monthly payments and the associated problem of mortgage underwriting criteria based on payment to income ratios. New underwriting criteria and the elimination of the FHA Section 245 graduated payment mortgage program, plus restrictions on Mortgage Revenue Bond programs, have created a situation where any rise in mortgage rates could severely jeopardize the ability of home buyers to qualify for loans. The third aspect of housing finance bearing on home buyer affordability is real mortgage interest rates--interest rates net of expected inflation. In prior years, the expense of high nominal interest rates was offset by the expectation of increases in home values. With real house prices stag-



Real rate equals nominal rate less 5 year moving average of annual price change of quality adjusted new one family homes sold.

Source: Federal Home Loan Bank Board, "Conventional Home Mortgage Rates"; Bureau of the Census, "Price Index of New One Family Houses Sold".

nant and inflation generally under control, the current level of nominal interest rates represents a very high real rate and a very high net cost of home ownership.

In addition to the cost of housing finance, home buyer affordability is also affected by house prices. Thus far in the 1980s, national average house prices, adjusted for changes in quality, have increased relatively little in real terms, but in some areas house prices have increased quite sharply and have reached distressingly high levels. Those areas have generally been characterized by growth controls, regulatory delays, and high development fees.

Measures that show declines in the incidence of substandard housing and overcrowding have been interpreted to mean that the availability of decent housing is a problem secondary to the affordability issue.. Similarly, near-record vacancy rates imply that, at least on a national basis, there is a plentiful supply of housing. However, other evidence shows that, while the overall supply of decent housing may be adequate, large numbers of lower-income households have been unable to obtain such housing. Such evidence includes:

- An apparent explosion in the homeless population, with the greatest increase consisting of increases in homeless families.
- An inability of households chosen to receive assistance in the Section 8 and voucher programs to find housing that conforms to program standards. Of those households who do not already occupy qualified housing at the time of their selection as prospective beneficiaries, approximately half fail to find housing that qualifies and must therefore forego benefits.[5]
- A decline in the number of vacant units with rents below $300 per month, at the same time that the overall vacancy rate has increased.[6]

Low income households have always found housing less available than households with higher income, but several aspects of the current situation suggest that the gap between the housing "haves" and "have nots" has become--or will become--more severe. One development is the movement away from federal policies that acted to create housing specifically reserved for low income households. Recently, policies favoring "demand-side" subsidies have pushed more low-income households into the overall, unreserved housing market, producing upward pressure on rents for the few unsubsidized units that are affordable to lower-income households. At the same time, gentrification and other factors have curtailed the supply of housing units provided through a trickle-down process (or "filtering") from higher-income households.

Beyond the desire to live in decent housing, most Americans want to own their own homes. The opportunity to own a home has inspired generations of Americans and brought them into the social mainstream. Homeownership yields extra dividends to society by fostering pride and participation in one's community, by encouraging saving, and by promoting social and political stability. These tremendous personal and public benefits strongly justify governmental action to facilitate homeownership through policies designed to enhance the affordability of home purchase.

Thus, the basic goals of national housing policy should be decent, affordable housing for all Americans and widespread homeownership opportunities. In recommending policies to achieve our national housing policy goals, NAHB believes that certain principles should be recognized:

(1) The private sector is the best mechanism for meeting the demands for housing.

(2) All levels of government must be involved in assuring decent and affordable housing for all Americans and widespread homeownership opportunities

(3) Low and stable interest rates are the most important factor in housing production and affordability. The federal government should place high priority on pursuing a mix of fiscal and monetary policies that reduces the deficit, promotes long-term economic growth, and ensures an adequate supply of capital.

(4) State and local governments should work in concert with the private sector and the federal government to expedite the delivery of affordable housing and to meet special housing needs in local markets.

In line with this approach, NAHB makes the following recommendations, directed toward the twin goals of decent housing for all and widespread homeownership opportunities.

TAX POLICY AND HOUSING

Tax incentives are an efficient means of implementing public policy because they influence private-sector economic decisions without the additional costs and delays typical of programs funded by Congress and implemented by government bureaucracies.

The Tax Reform Act of 1986 has made investment in rental housing less attractive and helped to induce a sharp decline in rental construction. All rental construction has been adversely affected, but the greatest adverse impacts have fallen on construction of rental units intended for low- and moderate-income households. Although the new tax law contains some provisions intended to encourage construction or preservation of low income rental housing, those provisions are unduly complex. In order for the provisions regarding tax-exempt financing and the low income tax credit to be effective incentives, they will need to be substantially modified.

Recommendation: **It is essential that the tax code continue to provide significant incentives for homeownership through deduction of mortgage interest and property taxes.**

> The homeowner deductions in the tax law reflect the basic societal value placed on widespread homeownership. Yet, there has been talk of limiting the homeownership tax deduction to raise revenue for various purposes. Most people recognize, though, that any limitation, however small, can easily expand to weaken or eliminate this central provision of housing policy, with important impacts on the homeownership rate and housing affordability.

Recommendation: **The sunset on state and local authority to issue tax-exempt mortgage revenue bonds should be eliminated.**

> Mortgage revenue bonds have played a key role in making home ownership possible for moderate-income households seeking to buy their first homes. The imposition of "sunsets", and their periodic extensions, create disarray in the management of these valuable state and local programs.

Recommendation: Tax policy should encourage and facilitate the accumulation of down payments.

Moderate-income first-time homebuyers would be greatly assisted if they were allowed to withdraw, without tax, funds from tax-deferred IRA or 401(k) retirement accounts for use as down payments. Essentially, this would be equivalent to allowing them to invest in their own homes rather than in mutual funds, CDs, or other investment vehicles.

Recommendation: Significant changes should be made in the low income rental housing tax credit, including:

(1) Administration by HUD, rather than by the IRS.

(2) Exemption from passive loss and minimum tax provisions.

(3) Flexibility for states to provide larger credits, if necessary, subject to the statewide cap.

(4)Elimination of cumbersome requirements regarding allocation according to when properties are placed in service, by allowing allocation authority to be carried forward.

The tax credit is a potentially powerful tool, particularly when combined with other federal, state or local assistance. However, unless it is made much more flexible and workable, the amount of additional housing provided relative to the tax credit allowed will be small.

Recommendation: Tax incentives should be available to encourage owners of properties reserved for low-income occupancy to extend their participation in assistance programs.

Under Section 221(d)(3)BMIR, Section 236, and other programs, privately-owned units are restricted to low income occupancy and reduced rents. The contracts under which owners agreed to restrictions, in return for favorable financing terms, provided that owners could prepay the mortgage and withdraw from the programs, generally after twenty years. Those twenty-year lock-in periods are about to expire in many cases. Tax incentives should be among the tools available to pursuade owners to continue to participate in assistance programs. For example, it should be possible for the low income tax credit to be granted to owners of such properties, even though there is no change in ownership.

Recommendation: Material participants in rental real estate should be treated under the tax laws in a manner comparable to material participants in other activities.

The 1986 Tax Act classified nearly all rental real estate activities as passive and thus limited the deduction of associated losses. This ignored the fact that many developers and owners materially participate in the management of rental properties and should be allowed to deduct, at a minimum, their cash, out-of-pocket losses.

HOUSING FINANCE

Federal policies to ensure the availability of housing credit and to reduce its cost have been a major component of national housing policy since the 1930s. These policies have helped produce the best housing finance system in our Nation's history. Despite this fact, many federally related elements of the system recently have been under attack from the Administration. The appropriate course for public policy over the years ahead is to generally preserve the system we have today, and to make further improvements where appropriate.

The major components of an effective federal policy on housing finance include:

- Federal mortgage insurance and guaranty programs that provide home buyers access to credit on favorable terms and at reasonable cost.
- Federally related secondary market institutions that provide access to credit in national and international capital markets.
- Thrift institutions that are committed to housing finance, backed by a strong deposit insurance system and regulated by an effective Federal Home Loan Bank System.

Today, the FHA and VA mortgage insurance and guarantee programs are relied upon by over half of all first-time home buyers purchasing new homes. The well-developed secondary market for mortgages rests on the effective functioning of GNMA, FNMA, and FHLMC. Thrift institutions, while financially troubled in some areas, are still providing over half of all housing credit. All of these key elements of the housing finance system must be maintained or strengthened.

Recommendation: **FHA must be maintained as an effective mutual mortgage insurance program for low-downpayment loans.**

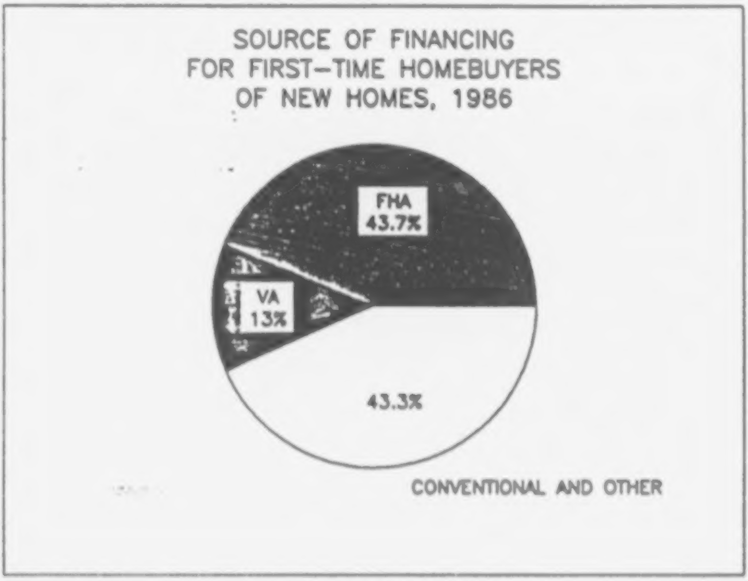
Actions to reduce the effectiveness of FHA have been proposed in recent years. Such changes must be avoided.

Recommendation: **The volume limitation on the FHA Adjus-**

table Rate Mortgage program should be removed and a comparable VA ARM program begun.

The FHA ARM was set up as a limited demonstration. The program has proven its worth and should be freed of volume restrictions. A similar VA program should be established.

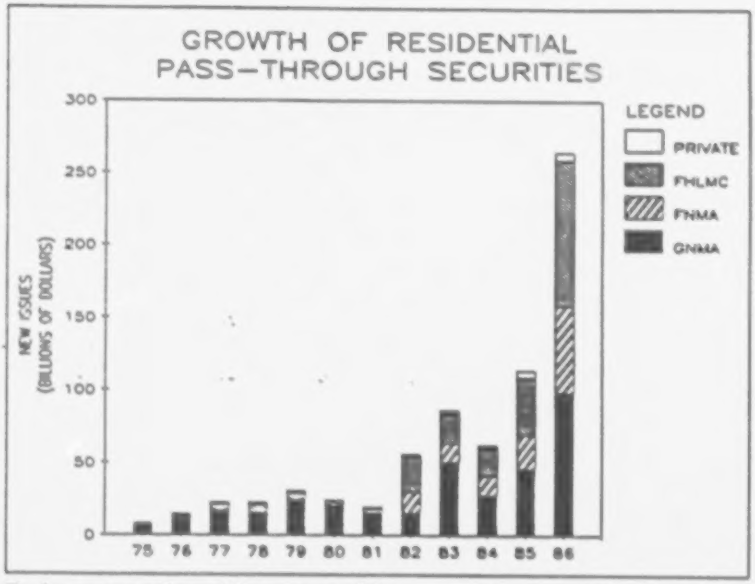
SOURCE OF FINANCING
FOR FIRST–TIME HOMEBUYERS
OF NEW HOMES, 1986



Source: NAHB, "Profile of the New Home Buyer, 1986".

__Recommendation__: **Binding volume limits should not be imposed on the VA mortgage guaranty program, and additional fees should not be imposed on veterans who are entitled to the VA program.**

In recent years, attempts have been made to cap the volume of VA loan guarantees and to raise fees to users of the program. These proposals are attempting to change the fundamental characteristics of the VA program--away from an entitlement/guarantee program and toward an insurance-type program subject to federal credit budget limits.



Today, more than 60 percent of home mortgage originations are sold as securities in the secondary market. The Federally-related agencies (GNMA, FNMA, and FHLMC) account for the lion's share of this activity.
Source: Board of Governors of the Federal Reserve System.

Recommendation: GNMA, FNMA, and FHLMC should be preserved in their current roles, in order to maintain efficient functioning of the mortgage system and ensure affordable mortgage credit for home-buyers.

GNMA is the key to the availability of FHA and VA financing. FNMA and FHLMC should continue to operate as federally-sponsored enterprises with Congressionally mandated commitments to housing finance. They should be permitted to operate without the imposition of user fees and with minimal interference from federal regulators, and the current system of establishing loan-size limits should be maintained. They should also be encouraged to develop and employ technical innovations in the structure and trading of mortgage backed securities.

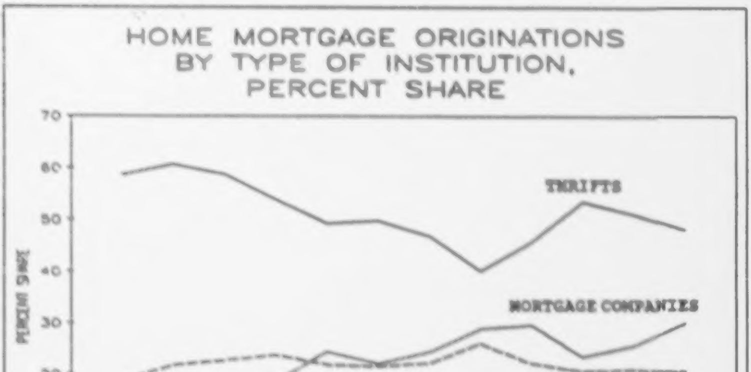
At the same time, FNMA and FHLMC should pass along the benefits of their federal sponsorship to mortgage sellers and, ultimately, to mortgage borrowers in all parts of the country, and they should devote appropriate attention to the needs of lower-income buyers and neighborhoods.

Recommendation: The structure of FHLMC should be reviewed, with consideration given to providing the agency with a broader range of representation and participation.

Consideration should be given to establishing FHLMC as a federally sponsored enterprise independent of the FHLBB, to enlarging the Board of Directors, and to including representation from the housing industry. FHLMC's stock should be allowed to be traded outside the S&L industry.

Recommendation: The commitment of the thrift industry to housing finance should be maintained and enhanced through incentives and rules governing portfolio composition.

To maintain thrifts' chartered purpose to provide affordable mortgage credit, it is necessary to restore meaning-



Thrifts continue to represent the largest source of mortgage originations.

Source: U.S. Department of Housing and Urban Development.

ful tax incentives for thrift investments in residential mortgage assets. Congress should also establish a stronger "thrift asset test", specifying appropriate levels and types of mortgage investment and substantial penalties for noncompliance.

Recommendation: Depository institutions, and their holding companies, should be permitted to engage in underwriting and dealing in private, third-party, mortgage-related securities.

Broader authority for banks and thrifts to underwrite and deal in mortgage-related securities will create greater competition in these activities, lower the cost of credit for home buyers, and increase the earnings potential for banking and thrift organizations that face stiff competition in national and international capital markets.

Recommendation: A long-term strategy for the future of the FSLIC should be developed in order to ensure the future viability of a thrift industry that is committed to housing finance.

The recent legislation that "recapitalized" the FSLIC is an important first step toward addressing the future of S&L's, but continued study and action is likely to be necessary over the longer term. For example, pressures may mount to merge the FSLIC and FDIC funds. Such a merger could undermine the status of thrifts as specialized housing lenders, and should be avoided. The long-term solution to the FSLIC problem will require creative thinking and possible longer term Treasury participation.

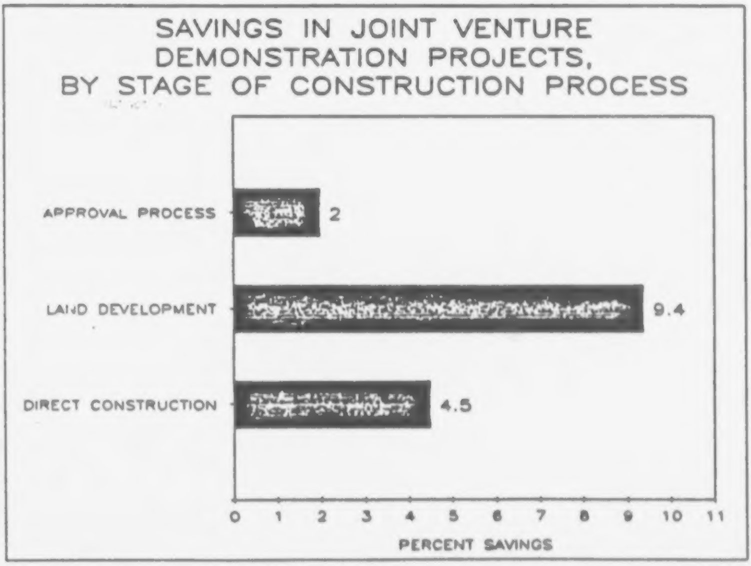
Recommendation: Full and appropriate disclosure should be required to ensure that borrowers understand mortgage commitments from financial institutions regarding interest rates and other features established at the time of application for a mortgage loan.

Misunderstanding with respect to the status of mortgage loan commitments has arisen, particularly during periods of sharply rising interest rates. Borrowers must know, and be able to count upon, terms of commitments made by lenders.

HOUSING COSTS

Home building is one of the nation's most regulated businesses. Much of the regulation is necessary to protect public health and safety, but, just as in other areas of our society, there has been a tendency to over-regulate housing. At the state and local levels, there has been damaging over-regulation of land use, development, and building technologies. In fact, regulatory restrictions are a major cause of the local housing affordability crises experienced in many parts of the country. Recently, federal regulation has been threatening to further restrict supply and raise costs.

Demonstration projects, such as the Joint Venture for Affordable Housing sponsored by the federal government, have shown the potential cost savings from flexible regulations and streamlined procedures at the local level, but many localities have failed to adopt such cost-saving changes. Further efforts to inform and pursuade localities are needed.



Joint project undertaken by NAHB and the U.S. Department of Housing and Urban Development showed that relaxation of regulations can reduce the cost of construction for new housing,.

Source: NAHB Research Foundation, "Joint Venture for Affordable Housing", Average of 20 projects.

Recommendation: The federal government should perform a continuing demonstration role in developing affordable housing.

> HUD can play an important role in financing research into new technologies and promoting joint ventures between the private sector and state and local government to achieve more affordable housing. The National Institute of Building Sciences should be enlisted to evaluate these demonstrations and promote them to localities.

Recommendation: Federal agencies like the Environmental Protection Agency and the Occupational Safety and Health Administration of the Department of Labor should carefully consider the impact on housing affordability in the development of regulations.

> Current EPA wetland and OSHA Hazard Communications rules demontrate a basic lack of understanding of the operating characteristics of home builders, with the result that recently issued regulations will cause significant burdens on home building without corresponding benefits to the public.

Recommendation: The Department of Housing and Urban Development should monitor and comment on federal regulations having potentially significant effects on the cost of housing.

> Such areas of regulation include storm water runoff, wetland protection, radon, and floodplain development.

Recommendation: Federally funded new construction and rehabilitation of residential properties should be exempted from costly Davis-Bacon requirements.

> Since relatively little residential construction labor is unionized, Davis-Bacon rules essentially require payment of artificially inflated wages to non-union workers. Federal housing assistance dollars would go further if this unnecessary and wasteful practice were eliminated.

Recommendation: Jurisdictions that receive federal housing

assistance should not be permitted to have rent controls or unreasonable growth controls or development fees.

Rent controls and growth controls contribute to an artificial shortage of housing. It is irresponsible to provide housing assistance funds to areas that are choosing to undermine their own housing markets.

Recommendation: Additional government action at all levels, including financing at the federal level, is needed to meet pressing infrastructure needs.

Congressional and Administration estimates place the unmet financial requirements for infrastructure (roads, schools, airports, water and sewer facilities, etc.) through the 1990's in the billions of dollars. All levels of government and the private sector must shoulder their fair share of these costs if America is to maintain its standards of living. Vigorous cooperation between these groups is needed to identify innovative methodologies and programs to promote investment in America's infrastructure needs into the next century. Consideration should be given to the establishment of infrastructure banks to meet some of these financing needs.

HOUSING ASSISTANCE

The federal government has a responsibility to assist the households who are unable to find decent and affordable housing on their own. While state and local governments have a vital role to play in securing that housing, the federal government should provide leadership and resources. The federal government's participation should take several forms, reflecting the varieties of housing needs and local market conditions.

HOUSING BLOCK GRANT

A challenge to any comprehensive national housing policy is to accommodate the tremendous diversity of housing needs and housing market conditions around the country. State and local governments are in a better position to assess and respond effectively to their particular needs. The federal government should provide funds is order to give leverage to state and local efforts. However, unless such a block grant program is carefully designed, it may simply supplant state and local efforts or be used as a general revenue source.

Recommendation: **Consideration should be given to a state block grant as a conduit for additional federal housing assistance.**

> Key features of the block grant should include specification as to what constitutes eligible housing assistance, a requirement for matching state or local funding, and a review process administered by HUD. The grant could encompass current funding for categorical grant programs such as rental rehab grants, UDAG, and HoDAG.

HOMEOWNER ASSISTANCE

Over the past two decades, homeownership rates of higher income groups increased relative to homeownership among lower-income households (especially those in the younger age groups). Federal housing assistance to low- and moderate-income households has tended to be focused almost exclusively on rental housing. Many of these households have the stability, responsibility, and desire to become owners, but an affordability gap stands in their way.

Recommendation: There should be a program of mortgage assistance for first-time homebuyers who cannot afford to buy homes without help.

> Among the features of a Homeownership Assistance Program could be the adjustment of the assistance to changes in the household's income, partial recapture of the assistance upon sale from appreciation, and a counseling program. Such a special program would be a supplement to the MRB financing, downpayment savings plan, and state block grant programs discussed above.

Recommendation: Some public housing should be sold to low-income tenants.

> Limited sales of public housing to residents should be tried, but such efforts should be closely monitored and include proper safeguards to ensure that units remain affordable to low-income households, and that the supply of affordable public housing rental units is not unduly diminished.

RENTAL HOUSING ASSISTANCE

Today about one-fourth of all renters with very low incomes (below 50 percent of median) receive federal assistance to secure decent housing at an affordable cost. However, the growth in this share is threatened as a result of cutbacks in new authorizations for assistance. Furthermore, many previous federal commitments for housing assistance will begin to lapse by 1990. At the same time, most rental housing is becoming less affordable, and changes in tax laws point to further erosion of rental affordability and availability. Thus, strong policies are needed concerning both maintenance of the current level of effort and expansion of assistance to additional needy households.

Recommendation: A flexible set of incentives should be used to encourage the retention in the low-income stock of privately owned assisted units.

> Such incentives could include increasing permitted rates of return, an improved low-income housing tax credit, and other tax incentives. Although the best set of tools to retain the assisted stock has not yet been established, it is clear that the incentives must be flexible to deal with

the tremendous variety of circumstances. In all cases, the contractual rights of owners to withdraw from the program should not be abrogated.

Recommendation: **Expiring project-based assistance contracts should be renewed by the federal government.**

Many of the federal commitments for assistance will be expiring soon. There is much to be gained by renewing those contracts and continuing to assist current tenants, thereby ensuring project and neighborhood stability.

Recommendation: **Additional rental assistance should take several forms, and should be tailored to the characteristics of local housing markets and specific needs of lower-income households.**

A full array of rental assistance programs, from supplemental rent payments to rehabilitation and new construction, are needed to match the widely varying market circumstances of different areas. Supplemental rent payment programs relying on existing units will not be effective in areas with tight markets for low rent units. A housing block grant should meet some of the need for new construction and rehabilitation.

Recommendation: **Private, profit-oriented entities should be encouraged to be active in the provision of housing for low income households.**

Experience has shown that the capital and expertise of private profit-seeking firms have been vital to effective and efficient housing construction and management.

ELIGIBILITY FOR ASSISTANCE

Recommendation: **Income eligibility tests for housing programs, including tax incentives, should be based on the higher of local or state median income.**

Many federal housing programs have eligibility criteria based on a percentage of local area median income. That means that in local areas with low median incomes, only extremely poor households are eligible for assistance, and income thresholds are below the level necessary for project feasibility.

RURAL HOUSING

Rural areas continue to bear a disproportionate share of the burden of substandard housing and there is much less ability to ensure housing availability through rehabilitation.. In addition, the housing finance system in many rural areas is substantially less well developed than in other areas.

Recommendation: **The Farmers Home Administration should continue to provide special access to low-cost mortgage funds in rural areas for single-family and multifamily housing.**

The FmHA is the major source of housing funds in many rural areas and has also served well as the vehicle for reducing the presence of substandard housing.

Recommendation: **New initiatives should be developed to broaden the sources of housing credit in rural areas through the use of privately-funded, federally-guaranteed mortgages in addition to direct loans in Farmers Home Administration programs.**

As federal resources for housing finance in rural areas have shrunk, the need for an adequate supply of mortgage credit becomes more severe. Positive efforts to facilitate the development of private lending would benefit rural areas without major spending increases.

Recommendation: **Contractual provisions regarding owners' participation in rural housing assistance programs should be honored.**

Continuing private sector participation in assisted programs requires confidence in the integrity of the federal government's commitments. Failure to honor the rights of property owners in FmHA programs to withdraw undermines the confidence in the program of potential participants.

PUBLIC/PRIVATE PARTNERSHIPS AND STATE AND LOCAL INITIATIVES

As growth in federal housing assistance programs has been cut back, state and local governments have increasingly responded with new initiatives to create public/private partnerships to develop housing for low- or moderate-income persons. The state or local governments have not only served as conduits for federal assistance, but some states and localities also have provided regulatory relief, property tax abatement, donations of land, and assistance from general government funds or designated revenue sources. Although relatively few units have been produced, these efforts have focused attention on both the problems and the possibilities. They have also permitted a much greater degree of innovation and local control of the development process. Unfortunately, while some states and localities have worked to eliminate regulatory barriers to affordability, many states and localities have raised housing costs through unreasonable growth controls and development fees.

Recommendation: State and local governments should be encouraged to mobilize all available resources to work toward provision of housing for low- and moderate-income families.

> We have recommended a block grant program to facilitate local efforts and a demonstration program to encourage regulatory reform. Joint federal and local efforts to identify idle government-owned land should be developed. Both profit-oriented and nonprofit private entities should be included in joint public-private efforts.

SPECIAL HOUSING ISSUES

Recommendation: Equal opportunity in housing should be assured by active enforcement of federal fair housing laws.

Although racial discrimination in housing has probably declined, studies have found that it is often still a factor affecting the freedom of choice of many families.

Recommendation: The housing needs of the elderly and of the handicapped should be given priority in allocating federal housing assistance.

The needs for elderly and handicapped housing are distinct and should not be lumped together. In particular, properties reserved for the elderly should not be required to accept nonelderly handicapped tenants. Both groups deserve special consideration in the design of housing programs.

Recommendation: The needs of the homeless should be addressed by efforts to increase housing supply.

Although homelessness is often not simply a symptom of problems in the housing market, a shortage of affordable housing has been a major contributor to the growth in the number of homeless individuals and families. To address homelessness, some special types of housing are required, including transitional housing and SRO hotels, with social services provided along with housing services.

HOUSING DATA

Recommendation: Housing data collection should be appropriately required and supported.

The efficient and equitable allocation of government housing assistance requires accurate measures of housing needs and costs at the local level, and similar data are needed by the private sector to efficiently plan for and produce housing. Data currently used to allocate government resources and set eligibility standards, in areas such as Fair Market Rents, FHA loan limits, MRB purchase price limits, and HoDAG grants, are seriously deficient. HUD and the Census Bureau should be directed and funded to seek more accurate and more suitable information on house prices, rents, vacancy rates, homelessness, housing quality, and other key variables.

CONCLUDING NOTE

As we noted at the outset, the purpose of this document has been to set forth a variety of ideas and proposals that should be considered and included as part of housing legislation for the years to come. However, we also recognize that these suggestions should be part of an ongoing dialogue to develop, review and refine legislative proposals. At this stage we have not attempted to prioritize all of these ideas, nor have we identified the specific budget resources that might be necessary to implement these programs. Obviously as these ideas are refined, specific fiscal considerations will need to be considered. Resources are limited, and deficit reduction continues to be a high priority to NAHB. Therefore the National Association of Home Builders looks forward to working with the Congress and the Administration in refining these suggestions, and we are anxious and willing to provide whatever assistance we can in support of that process.

Also, we would point out that from our perspective the objective of this effort should not be to develop a Federal Housing Policy, per se. Rather, it should be to establish Federal leadership and support for a National Housing Policy, based on the combined efforts of government at all levels, private business, nonprofit organizations, and the American public. With such a coordinated effort, the goal of a decent home and a suitable living environment for every American family will be within our reach.

Notes:

1. For example, a poll conducted in September 1987 by Information America Corporation showed that 79% of voters believed that the Federal government has a responsibility to help assure that the mortgage money is available at the best possible rates.
2. Source: 1983 Annual Housing Survey
3. Based on residential rent component of the Consumer Price Index.
4. Bureau of the Census, Current Population Reports, series P-60.
5. Stephen D. Kennedy and Meryl Finkel, "Report of First Year Findings for the Freestanding Housing Voucher Demonstration" (Abt Associates, Cambridge, MA, 1987), reports overall success rate of 61% for vouchers and 60% for Section 8 certificates, but if households that qualify in preprogram units are excluded, success rates in both programs are slightly below 50%.
6. William C. Apgar, Jr., "Recent Trends in Real Rents" (Joint Center for Housing Studies of MIT and Harvard University, Cambridge, MA, 1987), p 15.

KEEPING THE COMMITMENT

An Action Plan for Better Housing and Communities for All

As America prepares to enter the last decade of the twentieth century, the National Association of Housing and Redevelopment Officials calls for a recommitment to building a strong America. The time is at hand to revitalize our cities, rebuild our neighborhoods, house the homeless, strengthen our families, and renew our commitment to the basic principles that make this country strong. There is no reason we cannot succeed if we unharness the creative forces at the state and local level; restore innovation, flexibility, and creativity; reward performance and discourage mediocrity; and perhaps most importantly re-establish the federal government as a true partner in housing and community development. We have the will, and with the enactment of programs like those outlined in these pages we have the means. We only have to act, and this decade of commitment can lead us into the twenty-first century proud of the job we have done and poised for the future.

NAHRO

KEEPING THE COMMITMENT:

An Action Plan for Better Housing and Communities for All

America is reaping the harvest of a decade of federal neglect of housing for low and moderate income families.

Affordable housing for low income families is disappearing—two million units were lost from 1974 to 1983, while the number of families needing those units increased by three million. For those who find housing, costs are high. Four out of five low income families with children pay excessive amounts for rent, often for substandard housing.

The homeless—increasingly families with children—trouble most American cities, and their numbers are likely to grow as decent affordable housing continues to decline.

Continuing current federal policy will accelerate the housing crisis for low income Americans.

The demand for affordable housing will increase while the supply continues to decline. Low income households will grow by more than 5 million by the year 2000. America will need nearly 8 million additional low income units to meet that demand. Unless we take action to prevent further loss of the privately owned federally assisted units and the publicly owned housing stock, that number will be even higher—and hundreds of thousands of these units are at risk.

We can reverse this if we act, committing to a new housing and community development policy based on these fundamental principles:

- We must tap the creativity and ingenuity at the state and local level by replacing rigid national programs with flexible assistance that can be adapted to meet local needs. And we must build on the local experience and expertise developed in the past decades, particularly in our local public housing agencies.
- We must restore a reasonable production program for lower income housing, and supplement that with a flexible rental assistance program.
- We must enact sound policies to preserve the existing stock, including the irreplaceable resource of publicly owned and managed housing. Central to any long term housing policy must be a clearly articulated strategy to ensure the continued viability of the public housing stock.
- We must recognize that physically, socially, and economically sound communities go hand in hand with housing policy.
- We must coordinate tax policy with housing and community development policy.

The programs in the following pages will enable us to begin to meet these objectives.

THE PUBLIC HOUSING REVITALIZATION PROGRAM

Replace rigid federal controls with a performance incentive management system, freeing public housing authorities to operate more effectively and efficiently.

Intensive federal oversight and control threatens to strangle the public housing program. Local policies and decisionmaking have been replaced with national mandates and detailed requirements affecting the administration and management of public housing authorities. Local management flexibility and initiative have been discouraged, generating inefficiency and stifling creativity.

Rigid federal controls must be discarded and replaced with a performance incentives management system. Instead of contending with detailed specifications and requirements, public housing authorities will develop their own systems and procedures to meet designated performance goals. They will be free from intrusive federal oversight as long as adequate performance is demonstrated. This system will include incentives for good management, such as permitting the local authority to benefit from actions to reduce costs and increase revenues.

Re-emphasize performance in the Performance Funding System.

Operating subsidies will continue to be a fundamental component of the public housing program. The current performance funding system must be revised to encourage and reward sound management, not penalize it.

Create a rational system for rehabilitation through a comprehensive modernization grants program.

The current system of intermittent, unpredictable, and inadequate funding for public housing rehabilitation frustrates local efforts to plan for necessary maintenance and upgrading of public housing. As a result public housing is faced with a backlog of modernization needs totalling $20 billion.

This system must be replaced with a comprehensive modernization grants program to upgrade public housing, correct past design problems, and provide reserves for regularly scheduled maintenance and rehabilitation. The funding level must be adequate to fully upgrade public housing by the end of the decade and remove serious environmental hazards. The funding will also allow replacement of units demolished or disposed of as part of an overall modernization plan.

Allow PHAs to adopt local policies to move toward economic self-reliance.

Federal policy changes have forced public housing to serve only the poorest of the poor, have reduced revenues and increased costs, and have forced increasing PHA dependency on the federal treasury. Reasonable changes in federal policy granting more local flexibility will permit PHAs to operate on a sounder financial basis, strengthen the public housing program and reduce aggregate federal costs.

Under a three-year pilot program PHAs meeting minimum performance standards will have the ability to replace federal requirements with locally determined policies by selecting from a mixture of legislative and regulatory waivers. Rent structure, family income mix, and other requirements that affect operating costs and revenues can be waived. PHAs will still be required to meet national policy goals. As the effectiveness of the pilot is determined, the waivers will become permanent legislative changes affecting all PHAs electing to meet program entrance requirements.

THE FLEXIBLE RENTAL ASSISTANCE PROGRAM

Enact a flexible rental assistance program to utilize existing housing and to support production and rehabilitation programs.

Rental assistance is a necessary part of an overall housing policy. The current Section 8 Certificates and Vouchers program will be replaced with a locally designed, flexible rental assistance program. And the housing component of welfare payments should include a separate welfare allowance dedicated to housing.

The expanded rental assistance program will serve low income as well as very low income families. The local agency can use funds to lower rents for existing units or, through project-based assistance, support rehabilitation or production of new units. Combined with a new production grants program (described in the next section) the local agency will have a truly flexible program, with both capital subsidy and rent subsidy available to design projects to meet local housing needs.

Maximum rents for participation in the program will be determined at the local level. Assistance payments will be equal to the difference between thirty percent of the tenant's income and the maximum rent. Recipients can elect to pay more than thirty percent of income for rent if the local housing agency determines that the rent is reasonable for the unit, considering size, quality and location. Housing will have to meet federally established housing quality standards or equivalent local codes.

MEETING HOUSING PRODUCTION NEEDS

Establish a flexible block grant program to support production or substantial rehabilitation of housing for low income families.

New production and substantial rehabilitation of housing units have practically ceased, declining from nearly 130,000 new units annually in 1980 to a little more than 16,000 units in 1987. Omitting units earmarked for the elderly, there have been essentially no new units added to the low income housing stock in recent years.

A reasonable level of production, to add new low income units to the housing stock, must be a major component of an overall housing policy. In many areas vacancies are practically non-existent in the lower end of the rental market.

Housing markets are local, not national. The best housing policy must leave specific program design to states and localities, who can tailor programs to accommodate local needs and conditions. NAHRO therefore calls for a national housing production block grant program, to provide flexible grants at the state and local level to assist in financing new construction and substantial rehabilitation.

The national fund can be financed through regular appropriations or a dedicated revenue source. The type or level of subsidy, and specific project requirements and design, will be determined at the state and local level. Funds can be used for both rental and owner-occupied housing.

Projects will be developed by eligible sponsors, including public agencies, nonprofit organizations, and for-profit entities. Recognizing the particular role, experience, and expertise of PHAs in housing production and management, they will receive a special set-aside of funds.

THE COMMUNITY REINVESTMENT PARTNERSHIP FUND

Build sound communities through a new federal, state, and local partnership for long term reinvestment projects.

American communities need a federal commitment to a decade of partnership to revitalize our nation's communities, to build strong cities and neighborhoods that provide better places to live and work. This partnership will undertake a comprehensive assault on the problems facing our communities by addressing both people and places, by addressing economic as well as physical development, and by focusing national, state, and local attention on a set of common goals. These goals are to provide economic opportunity, a stable neighborhood, and a sound community for every American family.

Local government will commit to undertake a comprehensive reinvestment program over a one to ten year period through a local partnership. The partnership will include the financial sector, the business community, neighborhood groups, and other appropriate organizations; each would identify the resources they will commit to the program. State government can participate in a local partnership and, if designated by the community, can assist in managing projects for smaller local governments. The federal government would provide matching grants on a competitive basis for the duration of the partnership.

Through the partnership, local government can undertake the coordinated longer term, comprehensive effort necessary to attack major development problems, with assurance of continuing federal support.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The Community Development Block Grant Program is an admirable model for combining national policy objectives with local flexibility in designing projects to meet those objectives—it must be continued.

The Community Development Block Grant Program has been a major asset in local development efforts since its inception in 1974. It is the cornerstone of national community development policy. It must be continued under its present structure.

The essential features to its success must remain unchanged—predictable funding for states and localities on a multi-year basis to carry out a flexible, locally designed plan to meet community needs while addressing national policy goals. This state/local/federal partnership must not be fractured by additional requirements and restrictions. The funding level must be held constant in real terms and increased if more demands are placed on the program by an expansion of eligible activities

RURAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

Adequate funding to meet the special needs of smaller communities and rural areas must be continued.

Too numerous and too small for separate allocations, rural areas are forced to compete for funds that others receive automatically. As more programs move toward a block grant approach, it is important to assure that a reasonable level of funds reach smaller and rural communities.

Smaller, rural communities must continue to receive special, separate allocations of funds for housing and community development programs, including basic infrastructure needs. Technical assistance must also be provided, where necessary, to ensure rural communities have the necessary capacity to design and administer programs.

THE INFRASTRUCTURE FINANCING BANK

A national infrastructure bank must be created within the next three years to assist state and local government in meeting critical infrastructure needs.

There is an integral relationship between the nation's economy, community development, and the nation's infrastructure. The Congressionally created National Council on Public Works Improvement is charged with assessing infrastructure needs and identifying methods to meet those needs. While the NCPWI report will be a valuable resource, NAHRO's concern is that its completion will be cause for further handwringing, further expressions of dismay, and further delay.

NAHRO calls for the creation of a national infrastructure fund within the next three years to assist state and local government in financing the creation, maintenance, and replacement of the public infrastructure. The fund should give priority to meeting threats to public health and safety; require financial participation by state and local government; give priority to areas of greatest need; and mandate that funded facilities be able to cover operating, maintenance, and replacement costs.

A RATIONAL TAX POLICY TO SUPPORT HOUSING AND COMMUNITY DEVELOPMENT POLICY

Restore tax incentives for private investment in low and moderate income housing.

The Tax Reform Act of 1986 eliminated, reduced, or restructured tax incentives that encouraged private investment to develop low income housing. The incentives which do remain are of limited value or will soon expire.

Programs are far more effective if tax policy supports direct subsidies rather than makes them more difficult to use. The following modifications to the tax code will strengthen tax incentives for housing and community development.

- Improve the effectiveness of the low income housing tax credit by eliminating the 1989 sunset date, removing the income limits for investors, and eliminating the cap on the amount of credits for individual investors;
- Restore the ability of investors in low income housing programs to deduct the project's losses from other taxable income;
- Eliminate the 1988 sunset date for mortgage revenue bonds.

Reclassify qualified redevelopment bonds as tax exempt public purpose bonds.

Prior to the Tax Reform Act of 1986 thirty-seven states were using tax exempt bond issues to assist in financing redevelopment of distressed areas and devastated neighborhoods. Redevelopment bond activity has practically ceased under the current tax law. The Tax Reform Act arbitrarily reclassified these traditional public purpose bonds as private activity bonds, and placed them under stringent state volume caps with all other private activity bonds.

Acquisition, improvement, and redevelopment of land in partnership with the private sector are integral elements of urban revitalization. These essential governmental bonds must be recognized as such under the tax law and removed from the volume cap.

Adopt a first time homebuyers savings plan to stimulate homeownership for lower and moderate income families.

Homeownership rates are declining, and it is not hard to understand why. In addition to the high monthly cost of amortization, the down payment is another major obstacle. Most low and moderate income families will never make it over the latter hurdle. Stimulating homeownership requires downpayment assistance as well as lowering amortization costs.

The tax code must be amended to permit families with incomes below 120 percent of median to accumulate taxfree savings for a downpayment on their first home. Those with tax deferred retirement accounts should be permitted to withdraw funds for a downpayment without penalty.

THE LOW INCOME HOUSING STOCK PRESERVATION PROGRAM

Immediate federal action is essential to prevent the loss of hundreds of thousands of the 1.9 million privately owned, federally assisted low income housing units.

Over the last two decades 1.9 million privately owned low income housing units have been constructed, assisted by several federal programs. Over the next decade these units are at risk of being lost from the low income housing stock because of the expiration of restrictions requiring that projects serve low and moderate income persons. Restrictions will expire as owners opt to prepay mortgages or not to renew contracts for Section 8 New Construction and Substantial Rehabilitation projects. Other units are endangered because their financial viability is questionable without continuing subsidy.

The following federal action is essential to preserve this multi-billion dollar asset:

- Continue project-based subsidies for units that need it;
- Provide financial assistance to renovate financially viable units in need of physical rehabilitation;
- Offer financial incentives, through modifications in program requirements and tax incentives, for owners to maintain properties as low income;
- Require prior notice by owners that do intend to prepay, with incentives for sale to public housing authorities, nonprofit organizations, or others that will maintain properties as low income.

A RENEWED FAIR HOUSING PROGRAM

Make equal housing opportunity a reality for all Americans.

Racial discrimination in housing persists and continues to frustrate the goals of the Fair Housing Act of 1968. For almost two decades there has been a call to amend the law to provide for an effective administrative enforcement mechanism, including provision for "cease and desist" orders and stiff civil penalties for violations of the law. Vigorous enforcement is essential to make fair housing a reality in the next decade. These provisions must be written into law.

Financial support is also critical. Federal funding for community-based monitoring and enforcement is key to the development of a local enforcement capacity.

The statutory obligation of the Department of Housing and Urban Development to affirmatively promote the goal of fair housing should be incorporated into the administration of all housing programs. These steps will bring the nation closer to realizing the goal of equal housing opportunity for all.

A HOUSING AND COMMUNITY DEVELOPMENT RESEARCH AGENDA

Congress must develop and fund a program to secure critical information and research for housing and community development.

The national housing and community development information and research program has been in disarray throughout this decade. Valuable reports produced by HUD and the Bureau of the Census have been eliminated or reduced. Without solid information and research, program evaluation and policy development operate in a vacuum.

Congress must establish a comprehensive research agenda for the next decade to guide the development, administration, and evaluation of housing and community development programs and policy. These efforts must be funded by a dedicated research budget, with allocations to states and localities to undertake cooperative information gathering and research efforts.

A DECADE OF COMMITMENT

These proposals constitute the elements of a domestic policy that will strengthen American families and communities. They are essential ingredients of a commitment to a decent home in a liveable neighborhood for every American citizen. The proposals presented in these pages advocate the building of better places to live and work and when adopted will lead us into the 21st Century as a stronger, more vital country.

This paper is excerpted from the full report, "Keeping the Commitment: An Action Plan for Better Housing and Communities for All." The full report will appear in the January/February edition of the "Journal of Housing." For more information on any of the programs described, contact the National Association of Housing and Redevelopment Officials.

Submission to Senate Housing Subcommittee

The National Association of Housing Cooperatives (NAHC) applauds the initiative of the Senate Housing and Urban Affairs Subcommittee, "to begin moving housing back up to the place it deserves on the national agenda." Clearly, the nation's housing goals, enunciated clearly in 1968 are far from being met. The last seven years have shifted housing policy discussion from the creation of new affordable housing to the preservation of existing federally subsidized housing. The need for affordable housing has increased as the federal commitment to its creation has nearly ceased. What is clear is that for a significant proportion of America affordable housing, housing that is safe decent and meets minimal code standards, housing that is not overcrowded, is unattainable. In the search for a broader consensus for housing, we must relate the country's existing housing policy, the mortgage interest and property tax deduction, to the entire income spectrum. We can no longer afford to provide a tax deduction for second homes when many Americans can not afford their first home. We must establish that all Americans have the right to decent housing, and design federal programs to assure that right. Programs that touch only a minimum number of those eligible are insufficient.

In seeking to reinvigorate housing programs, we need to recognize that in the last fifty years, a network of programs has been developed which deserves continued and increased funding. Federal mortgage insurance, low rent public housing, rural single family and rental programs, Section 202 elderly, housing assistance payments, Section 235, housing development grants and tax incentives and credits are all part of a system of housing assistance with a proven track record. Any housing program must include these elements.

In other words, a housing program requires flexibility to respond to a variety of local conditions (high vacancies/low vacancies/need to stimulate certain kinds of new construction/need for rehabilitation). Such flexibility could be incorporated in a housing block grant approach, providing funding to state and local housing agencies based upon need and population. At the same time, funding for communities either too small or unwilling to provide such assistance must also be available, through the federal government directly to those who would develop such housing.

The structure of such programs could allow for first year capital cost writedowns sufficient to make housing affordable to low and moderate persons. An important component of a housing program should be its capacity to have housing developed by community based groups and to have that housing controlled by the group that occupies that housing. Therefore, an important part of the housing program should provide for cooperative housing. Cooperative housing has been developed using the myriad of federal housing programs that have existed, often, however, having to make a round stick fit into a square hole. Cooperative housing provides for community control while assuring long term affordabilty. Cooperative housing instills pride of ownership. It reduces operating costs, by creating both an economy of scale and by removing profit from the operation of housing. Coops add no profit to the cost of operating housing. Cooperative housing is a demonstrated success.

The FHA 213 Cooperative Housing Mortgage Insurance program is the only mortgage insurance program which has returned the mortgage insurance premium to mortgagors. Since default and delinquency in the FHA 213 program is nearly anecdotal, nearly all premiums collected have been returned.

The costs of operating cooperative housing are significantly less than those of operating rental housing. While NAHC is not saying that all housing assisted should be coopertive housing, a much larger percentage of housing assisted should be cooperative housing. A recent study by the University of Minnesota demonstrates that cooperative housing is more cost efficient than rental housing.

Any federal housing program that is created should make cooperative housing an eligible use of funds. Cooperatives could be limited in their return on equity, could be part of mutual housing associations or could be leased. The point is the more control people have over their lives, the better the result.

Prospective cooperators should be involved in the development process, particularly in being educated to take on the roles of members and leaders in their coops. People need training to effectively manage the fiscal and physical affairs of their communities.

Making cooperative housing a significant part of a federal program assures reduced operating costs, improved maintenance and lower default and delinquency. It allows for community control, security from eviction, freedom from major maintenance concerns and helps create neighborhoods that can join to meet other non-housing needs, as well.

NATIONAL ASSOCIATION OF REAL ESTATE BROKERS, INC.
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Ray C. Carlisle
President

October 2, 1987

United States Senate
Subcommittee on Housing
and Urban Affairs
Washington, D.C. 20510

Dear Senator Cranston:

Whether it be for principle residence or investment purposes, a large segment of the Middle-class American Citizenry do not have the opportunity to purchase real estate. The 1986 Tax Reform Act initially had promise of lowering taxes for all which would net more disposable income to tax payers, stimulate our economy and keep the lid on interest rates and inflation. If this scenario actually occurred, we would not be faced with the dilemma that we now face in home ownership for American citizens. For the first time in this Nation's history, less that 46% of Americans own their own homes. And this problem is getting worst instead of better. More than fifteen million very low income households pay more than 35% of income for rent. Our changing work-force from manufacturing to service industry is lowering the average family income. All economic indicators suggest continued slow growth, continued rising interest rates, and the strong probability of a rapid rise in the inflation rate. These indicators along with the 1986 Tax Act has caused a tremendous loss of disposable income to the moderate and middle income persons, and a very bleak outlook of the very low income of ever improving their plight. Furthermore, with the assault on the public housing sector, federally assisted rental programs are either being phased out or reduced drastically (as witnessed by HUD's 70% reduction in direct federal expenditures for housing programs for low and moderate income persons). We are at an extreme crisis time for anyone other than the rich when it comes to our housing needs. The present tax structure is not in reality beneficial to anyone other than the rich.

In an effort to stabilize the dwindling percentage of Americans who can afford to buy and invest in real estate and to stabilize the decline of our urban areas as it pertains to affordable, safe and fair housing, and quality of the supporting commercial areas within these areas, we recommend the changes listed below in the 1986 Tax Reform Act. The overall goal these recommendations is to enhance the ability of small entitie. as well as moderate income individuals to help their own communities.

(1) TAXATION OF INCOME ON REAL ESTATE

(a) A reduction in the number of rules to determine how income is taxed from real estate in designated areas and for moderate and middle-income persons families, or entities. Persons with $50,000 annual income or less. Families with $75,000 combined income or less. Entities (partnerships or syndications of no more than 10 persons or families that fall within these income limits.

(b) Identify those areas by census tracts for investment purposes that are low and moderate income areas designated by the 1980 census which will be eligible investments for tax incentives.

(c) For those designated groups and areas allow an accelerated depreciation of the old standard of 19 years at 175%.

(d) Restore the 60% reduction for capital gains, and also allow the present 10% tax credit for substantial rehabilitation in designated areas.

(e) Installment sale for tax reporting purposes - report the capital gains separately to recapture the depreciation on sale.

(f) Allow limited partnerships and syndications of the approved groups for designated areas to include dealers of real estate who fall within the income criteria. Allow this qualifying group to not "materially participate" in syndications or partnership to allow passive activity loses.

(g) Repeal the ban on reductions for passive investments.

Overall, these recommended changes will economically uplift designated areas. They will enhance the social climate in these areas which will increase the " pride of place" for present residence. They will accrue investment benefits to moderate and middle income persons; something which is very difficult for them to achieve under the present tax system. The changes will enable moderate and middle income persons to work closely with very low and low income persons and help create a better sense of community. This will drastically increase the quality of the housing stock for residents and small business upgrading. An additional effect would be increased employment opportunities, revenue to the local government through increased real estate and business taxes. This improved social climate will also have the effect of a downturn in criminal activity accompained by an increase in community pride; which will enable the existing community to invest and reinvest in the community.

The mortgage Revenue Bond Program (MRBP) has been a valuable vehicle for providing first time home buyers with affordable housing opportunities. The new home buyers have had positive effects on the overall community. The Mortgage Credit Certificates established by the 1984 Tax Reform Act is also viable in allowing tax credits to home buyers thereby affording them more spendable income for the necessities of maintaining essential family Planning objectives such as planning for college education of their children, maintenance and upkeep of their property and generally stabilizing an acceptable quality of life in this time of a changing economic climate.

NAREB supports HR 2640 (Donnelly etal) S.1522 (Riegle etal).

Sincerely,

Ray Carlisle
President

I

Several years ago the United States Department of Housing and Urban Development (HUD) targeted certain cities across the United States that had poor tax basis and hence had difficulty in raising revenues needed to support governmental requirements. In an effort to overcome this difficulty, these targeted cities were eligible for Community Block Development Grants. As a tandem program to this, the Government National Mortgage Association provided below market interest rate loans to the development of multi-family housing if they should elect to develop housing under any of the HUD programs. The most popular program elected was the 221-(d)4 or the HUD insured programs for moderate income housing.

Eventually, this program was eliminated and many of the incentives to do multifamily housing under the 221-(d)4 program were also eliminated. The two programs when placed together generated considerable leverage for a developer to invest in these targeted areas because they could raise the necessary capital. When these factors were coupled with the ability to write-off depreciation for those investors, the targeted areas could attract safe, sanitary and decent housing in blighted neighborhoods. Those programs also had a small commercial component attached to it because HUD was in the business of housing and not commercial development. The commercial component limited the development of no more than 10% off the square footage of the housing component for commercial space. Often, through the development of Planned Unite Developments, the economics of the project could utilize additional commercial development; but the additional commericial was not done. The theory was that should there be a need for commercial development, then commercial loans and investments should be available to carry this mission.

The cities that have the economic problems yesterday have not yet cleared the requisite capital level to continue sound fiscal policies. In fact, many of them are charging infra-structure costs back to the developers under the gize of user fees, capital impact costs. This latter practice is of some dubious validity noting the recent decision of the United States Supreme Court and the implication of disproportionate taxation. The other more deliterious affects of these requirements is to place a chilling effect upon the financial capability of a viable project at cost conception and eventually at the market side or if completed. With the additional capital requirements, the projects fail to make economic sense.

Many cities are almost joint venturing with developers to get projects done. This is another practice which when viewed under the magnifying glass causes great slight of hand when it comes to legal review. How can a successful project be "negotiated" in an open free for all bidding process without creating some legal fiats in order to get a certain project completed. Thus, this could jeopardize the entire intent of the program which the city is about. The state of North Carolina's motto is "esse quam vederi" which is translated to mean "to be rather than to seem." It would thus appear that we certainly can create legislation and programs that would have the effect of being, rather than seeming to comport with legal standards. Because if every detail of the complexities are dealt with in terms of the letter of the law (meeting open bid requirements as required for certain dollar amounts) every project would be in jeopardy. Further concessions granted to developers, such as the development of parking garages in conjunction with hotels or tax relief incentives are created and not to be chidded but when it comes to these projects and equal opportunity and equal taxation, the lines of governmental need (the justification) to do the unprecedent and the lines of the written law come closely at odds, one with the other. Suppose for example, that city A has a parcel of urban renewal land that it desires to develop for a convention center. In order to support that convention center, it decides that it needs a hotel nearby. Assume that city A puts a request for proposal out as an offer bid situation and then among five developers (and that's generous), developer M responds with the best bid. Developer M then begins to negotiate with the city and states that his plan does not call for any parking which is necessary and that the city must furnish the required parking. A change in the bid? Obviously, yes, but many cities have gotten around this by fiat. Let's assume further that the hotel project because of demographics in other similar deficiencies will not support a hotel of 500 rooms as requested, but 250. Upon futher consideration, after bid is given by Developer M, is that, should he be able to incorporate a commercial component to the program that he could make economic sense from the demographics and the economic need. The latter of which cities are often without the real ability to evaluate when placed with the litmus test of desire versus economic reality.

The real problem comes about when alternatives after a lengthy bid process has been completed of how to go about and re-advertise the bid or a new request for proposals so as to offer the other four developers another opportunity to re-bid in an effort to be fair. However, Developer M now is either at a disadvantage or at an advantage either because after he has invested time and capital into studies and negotiation, he is apt to lose his bid should he have to re-enter the bidding war, or if he should fail to disclose all during the re-bid, he is at an unfair advantage to the other bidders. Either way it becomes a legal nightmare to get the ideals of the city matched with those of the developer and have it all make economic sense and a successful project, the bottom line aim of the whole process.

It would appear that either by expanding the jurisdiction of HUD or the United States Department of Commerce, that programs can be placed together and proposals made to develop both housing and commerce. For example, large tracts of land that are disadvantaged by chemical spoilage that can be rehabilitated and divided into housing recreational, industrial, and commercial usages could be of tremendous tax boost to a government. When the land, obviously an economic drain on the current owner, non-productive when reviewed by local government and certainly a tract that could not in reality produce taxes and is similar to the fly paper - unable to unload, unwanted and nonproductive. If certain programs could be brought together as below market interest rate loans, insured , mortgages, either insuing bonds or commercial mortgages to the point where all of these make economic sense then the private sector has the requisite incentive to proceed to curing the problem and accomplishing the needs of both the County, State and Federal governments.

II

The American Tobacco Company ceased the operation of its factory in downtown Durham, North Carolina in or about the month of May, 1987. The property and improvements that are apart of this complex are located within two (2) blocks of the Central Business District. Obviously, not only was there a tremendous loss of jobs, but because the buildings and property were unique to the manufacturing of cigarettes, there must and will be an eventual unevitable loss of tax revenue generated from this tax base. The cost of tear-down, restoration and conversion to new and productive usuages makes the project normally cost prohibitive on a conventional basis.

Another interesting aspect of this project is that some of the structures have some historical value from the aspect that Durham, North Carolina was built upon the successes of the tobacco barons and thus site was one of the first major tobacco factories built to boost the economy of this city. The brick used to build the warehouse and factory facilities was manufactured at a brickyard owned by a minority. Of course all of the brick and mortar craftsmen were minority as well.

As further testimony to the historical aspect of this particular site is that it was this factory that once had two unions; one white and one black. Because of court decisions and National Labor Relation Board rulings, the black union was ordered to merge with the white union. The problems with that were: 1) that the black workers lost their seniority status and 2) economically, the black union was better off in that they had their own assets and bank accounts. These factors produced significant problems that were later resolved but obviously the structure that can be saved could be a monument to historical times that changed the face of this community and the nation.

The particular usages that this land and attendant edifaces could be put to, would include hospitality, entertainment, shopping, office and housing if an economical basis could be established. The utilization of minorities who played a significant role in the building, development and operations of this factory certainly should be included in the development scheme of a project of this nature including but not limited to the development, equity participation, tenants, construction, insuance, law and any other necessary aspects to the completion of the re-establishment of this facility to a tax and economic basis for this community. The utilization of the Labor Department, HUD, U.S. Department of Commerce and the Evironmental Protection Agency funds, along with private and local government parties portion would obviously produce a sound economic program to sustain repayment of below market rate loans financed through the issuance of tax exempt bonds.

III

The City of Charlotte, North Carolina, the largest metropolitan area in North Carolina and headed by a progressive black mayor is an ideal site for the development of a multi-use ediface similar to Trump Towers in New York City. The upward mobility of the people of Charlotte coupled with tremendous growth of downtown business lands a factor to favorable development.

Minorities have often had to take minor roles or political roles in the development and growth of cities.

This opportunity affords a chance for a minority to enter the mainstream of economic development if that minority could economically put together a favorable financing package to attract the tenants to utilize the structures and location of this project. It must be remembered that blacks have not had the longevity of wealth creation which is the nucleus of economic development. However, with assistance from government via below market interest rate loans and grants, to the extent that required municiple and infra-structure costs are eliminated, opportunities for economic parity of minorities can then become a reality.

This is not to say that just because its a minority that monies be doled out for projects that don't make sense, but that a project of this nature can be shown to do several things including but not limited to: economic parity, futhering the tax resource base of a municipality in need of funds, economic growth and employment of tradespeople, merchants from which additional tax revenue are generated and the preservation of downtown areas. There is a thought that businesses that close-up during the evening hours and leave cities vacant at night do not have as great appeal as those cities that have continued night appeal through hospitality and entertainment. This is accomplished by having people living downtown close to the

Central Business District and hence, creating a need for a 24 hour city as opposed to an 8 hour city.

All of the projects can be accomplished through the judicious use of grant funds, Central Business District funds, and tax free bonds to produce the appropriate mix of numbers to make these projects successful, reduce the unemployment rates, create tax basis, in bringing minorities into economic parity, and make this nation stronger and more productive.

Cities are also conditioning approval of development plans, at costs to be borne by the developer. The widening of roads and in some cases major road building and then dedicating these facilities to public use is becoming more and more fashionable for cities to do.

HUD.TXT\ecm

NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION
LEGISLATIVE PROPOSAL

"HOUSING UTILITY GRANT"

SUBMITTED TO
THE SENATE BANKING, HOUSING & URBAN AFFAIRS SUBCOMMITTEE
OCTOBER 5, 1987

Introduction

The National Community Development Association (NCDA) is a public interest group with 440 members representing entitlement cities and counties and small communities. In preparation of our housing legislative proposal, NCDA requested its key member cities to submit specific comments on the existing housing programs and recommendations for both legislative and administrative changes. During the months of July and August of this year, we gathered surveys from over twenty cities across the country. Community development and housing officials from these cities met at an executive symposium in late August to review all of the recommendations and put forth a specific proposal. This proposal is entitled "Housing Utility Grant" (HUG). It reflects a process under which each of the existing housing programs was evaluated for its positive and negative features.

The HUG proposal, compiled by the Legislative Committee of NCDA, is a composite of NCDA members' thoughts on what would be the most effective and responsive national housing program that could be distinctively established under the new housing legislation. This paper will first present the Housing Utility Grant proposal, the overall profile, guiding principles, program features and possible funding sources. Secondly, it will highlight specific problematic features of existing housing programs, and possible legislative and administrative solutions.

We believe the HUG proposal is realistic and practical. It provides long-term affordable housing for low and moderate income families and individuals. It allows local flexibility within national legislative parameters to address varied housing markets and housing needs across the country. The proposal captures the best features of the existing programs, henceforth, it will allow a workable and smooth transition of programs when the new housing legislation is promulgated.

NCDA strongly believes that the success of any new housing legislation is contingent on adequate funding. Congress must recognize that the country is facing a major housing crisis. The existing level of appropriations to housing programs are simply insufficient to address the current housing needs. A new national housing legislation must be accompanied by new funding appropriations. Already stretched Community Development Block Grant (CDBG) program funding must not be used in any part as a resource to implement programs under the new housing legislation.

We believe that the housing legislation should be crafted to solicit broad based support. We, therefore, believe that housing legislation built upon the best and most workable features of existing programs and providing local flexibility would be the most responsive and well supported approach.

We applaud Senator Alan Cranston for his leadership in making housing a national priority. We appreciate the opportunity to provide our views in this major undertaking.

I. "HOUSING UTILITY GRANT"

A. PROGRAM PROFILE

The Housing Utility Grant should be a formula entitlement grant that is targetted for low and moderate income family housing. The "HUG" proposal advocates some very basic distinctive features: preservation of existing low income housing stock, new production with long-term affordability, legislative and tax incentives to allow maximum public private collaboration, local flexibility to design the best combination of housing programs responsive to the particular housing market. It allows local governments to determine program priorities (e.g. ownership vs rental housing, nature of subsidy mix) and specific household eligibility within basic income guidelines. Funding should be provided on a long-term and adequate basis. As exemplified in the Stewart B. McKinney Homeless Assistance Act, housing production programs should be accompanied by supportive services programs. In view of our increasing social problems of substance abuse, mental health, homelessness, it is essential that a new housing bill should contain provisions and fundings for supportive services so as to assure not only adequate shelters but long-term self-sufficiency of the low income families and their members.

B. GUIDING PRINCIPLES

In order to be fully effective in meeting local housing needs, new federal housing legislation should be guided by the following principles:

1. Provide predictable, adequate and available funding. Any effective housing program must have adequate funding available, and funding must be on a predictable basis so that effective long-term housing strategies can be developed and implemented. It should be an Entitlement Program.

2. Provide long-term affordability primarily through long-term rent subsidy commitments allocated to housing units targetted to low-moderate income families. The split between funds used for production/development purposes and long-term rent subsidy commitments should be determined.

3. Emphasize production so that new and rehabilitated housing units are continuously added on the supply side to meet the growing demand and replace any units that are lost due to other factors.

(NOTE: These first three principles are paramount and must be mandatorily linked together in the federal housing legislation so that not only are adequate housing units produced on a regular basis, but they are maintained as affordable units on a long-term basis.)

4. While flexibility should be provided to allow for new construction and home ownership opportunities, the major thrust of the program should be retaining and rehabilitating existing units for rental purposes. Programs promoting home ownership do not necessarily respond to the needs of most low income households.

5. Provide program flexibility so as to respond to local needs and allow local communities to capture their unique housing market forces. Locally designed programs often are more effective and efficient since those responsible for program implementation have a greater sense of "ownership." Formalize and acknowledge the important role of local governments in designing and producing affordable housing for low and moderaate families. This new program initiative draws on the significant capacity developed over the past ten to fifteen years by local governments, which have by necessity become major players in producing and providing affordable housing.

6. Public/Private Relationships are mandatory to ensure that local lenders, realtors, developers are included in the program implementation. No housing program can be successful without including the primary private sector actors in the housing industry. Appropriate tax and financial incentives should be provided to sustain active participation of the private sector players.

7. The Housing Utility Grant program should be linked to and assist "distressed" properties. Local housing strategies must take these properties into account and be able to lend assistance where appropriate. Federal funding must be provided to local governments to prevent the dumping of these units and any further loss of affordable housing.

8. A strong planning process is required at the local level in order to ensure that all the necessary factors are included in the development of the new housing initiative. While planning is an

important requirement, local community development agencies should take a strong lead position to ensure that the overall purposes and objectives of the program are implemented.

9. Social service support programming should be available on a project-by-project basis with some sort of funding cap or ceiling established on a percentage basis per project.

10. Funding for the Community Development Block Grant Program should remain separate and apart from the Housing Utility Grant. The CDBG is not "up for grabs."

C. PROGRAM FEATURES

1. The Housing Utility Grant Program would be put together at the local level with the community development agency taking the lead. The requirements would include a strong planning emphasis and requirements for developing a strong local consensus on how to allocate the funding.

2. Flexibility must be provided to local communities so that programs can be tailored to the local needs taking into account such factors as vacancy rates, family income profiles, production costs and the like. Local communities and governments must be able to capture their local market forces to maximize the public benefit of any housing program.

3. The funding should flow through cities and counties who are in the best positions to determine the full spectrum of local needs and develop allocations to respond accordingly. It is important to note that during the past ten years local governments (primarily through the Community Development Block Grant Program) have become fully involved in various housing production programs and have demonstrated the capacity to be effective.

4. Through either legislative or administrative guidelines the split between low and moderate income families would be defined. There is a consensus that at a minimum 50% of the funds should be targetted to families whose incomes are at or below 50% of the metropolitan median income. Targetting can also be done based on area neighborhood conditions and family size.

5. A primary method for implementation can be the use of requests for proposals (RFP's) for the development production program. A well structured RFP process is generally more desirable than exclusive negotiations. The RFP approach provides a higher probability that the program's primary objectives will be implemented.

6. There is an explicit acknowledgement that public housing agencies (PHA's) must be involved with local governments and the private sector in making the program work. This is a significant statement since in the past local governments and their respective public housing agencies have often not worked toward common objectives.

   The local public housing agencies (PHA's) will play an important role. Their role should be clearly identified in the local program description. PHA's will primarily be responsible for administering and managing tenant eligibility and screening which they now do for existing programs. Other roles for PHA's can include developer, property manager, and identification of properties in need of rehab.

7. A significant role is possible for local community-based non-profit corporations. These non-profit corporations tend to have a significant commitment to the local community and service to low and moderate income families. They are closer to the problem than other corporations and they are community-based and non-profit. Non-profits can be involved in three ways, as: (a) provider of social service support programs; (b) developer of housing units; and (c) manager of husing units. In order to qualify as either a developer or manager, a non-profit should have to qualify under some kind of "capacity threshold" review. This is important to ensure that the non-profit has the capacity to provide the necessary services and carry out its role properly. Once the capacity threshold is met, non-profits could be given certain preference in the developer and management selection process.

8. Administrative cost reimbursement for both local governments and developers/managers of housing projects is imperative. The necessary cost of "doing business" must be recognized.

9. Bonus or incentive funding should be established as a reward for communities responding to particularly distressed neighborhoods within their jurisdictions.

10. Financial paybacks accruing from the housing development/production funding package should return to municipalities for future recycling for housing programs. This will create an added incentive for local communities.

D. FUNDING SOURCES

As noted before, the new housing legislaion must be adequately funded to create and sustain long-term impact. An annual appropriation of $30 billion or more is mandatory. It is envisioned that several existing housing programs would be "folded in" to provide the core funding support for the new initiative. Such programs would include rental rehab, mod rehab, and 312. Programs specifically not folded in would include the HODAG and Public Housing Funding. While HODAG would remain separate, it could be restructured to provide linkages to the new program but continuing on a nationally competitive basis. Also, "distressed" properties will require a new and separate funding source in order to be maintained in the low and moderate income housing inventory.

III. OTHER PROGRAMS

1. Rental Rehab program requirements encourage development of large family units, yet, funding limits offer no recognition that large family units cost more.
2. 312 funding cycle unpredictable - planning difficult. Interest rate of prime plus 1 (not attractive to investors, too close to market and a headache. 1% risk fee - onerous.
3. Expiration of mortgae and subsidy agreements.
4. CDBG - responsive to local needs (Retain).
5. Loss of low/moderate units due to prepayment (increase homelessness, overcrowding) 221(d) 3, 236s and Section 8 Contracts.

II. PROGRAM PROBLEMS AND LEGISLATIVE SOLUTIONS

I. HoDAG/UDAG

A. Program Problems

HoDAG/UDAG

1. Uncertainty of funds and funding rounds makes it difficult to plan and apply.
2. When funding rounds are announced, lead time to submit proposals (usually 45 days) is too short to get quality proposals.
3. Inexperienced, overly cautious HUD staff cause delays, extra expenses, etc., in their administration of programs.

HoDAG

1. After three years, there is still no implementing regulation or guidelines and no executed grant agreements, resulting in conflicting decisions from HUD staff causing excessive legal expenses.
2. Relocation requirements are unrealistic and costly. Makes infeasible many potentially good projects.

UDAG

1. It is biased to job-creating projects - therefore, commercial or industrial projets do well and housing does poorly by comparison. Because of $15,000 maximum per unit, housing projects tend to be market rather than subsidized.
2. Catch 22 - HUD requires developer to get a firm financial commitment, but also to provide that UDAG funds aren't likely to substitute for private or local funds. It is difficult to do both.

B. Legislative or Programmatic Solutions

HoDAG/UDAG

1. Reform application procedures so it is easier for developers to apply.

2. Stabilize funding and funding rounds so that communities and developers are ensured of program continuation.

3. Minimize rejection of applications because of technicalities.

4. Increase HUD staff and provide training to reduce response time, bureaucratic hasseling and "nit-picking" that often results in increased project costs (legal, construction etc.).

HoDAG

1. Eliminate the "temporary" enhancement requirement in HoDAG for every proposal indicating an application will be filed for FHA.

2. Develop realistic relocation requirements for HoDAG.

UDAG

1. Return to the 1/3 set-aside for Housing UDAGS or exempt them from the jobs-creation requirements.

2. Establish higher maximums per unit cost for Housing UDAGs to provide greater low/moderate benefit.

3. Eliminate the Catch 22 for the developer in UDAG program.

II. TAX LEGISLATION

A. Program Problems

1. Tax Reform Act of 1986 eliminated or greatly curtailed most federal tax incentives for private investment in low-income housing development.

2. Inclusion of tax-exempt housing bonds in the volume cap virtually imposed an 80% reduction on the volume of such bonds that states and localities can issue to finance low- and moderate-income housing.

B. Legislative or Programmatic Solutions

1. Reinstate deductions and depreciation allowances which serve as basis for limited partnerships and syndications.

2. Increase the passive loss exemption for those investing in low-income housing developments and utilizing the tax credit.

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President Irving J. Stolberg
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William T. Pound

Statement Of

Irv Stolberg

Speaker, Connecticut House

Of Representatives,

President, National Conference Of State Legislatures

On Behalf Of The

National Conference of State Legislatures

Submitted To The

Subcommittee On Housing And

Urban Affairs

Of The

Senate Banking, Housing, And

Urban Affairs Committee

Regarding

State - Federal Housing Policy

October 5, 1987

Denver Office: 1050 17th Street • Suite 2100 • Denver, Colorado 80265 • 303/623-7800

On behalf of the National Conference of State Legislatures (NCSL), thank you for this opportunity to submit a statement in support of a renewed and vigorous federal housing program.

The NCSL recommends a coordinated effort by federal, state, and local governments and by community and nonprofit groups to achieve the goal of decent housing for all Americans. These efforts should concentrate on rehabilitation and construction of low-income housing and subsidies to make existing housing affordable for low income families.

NCSL specifically recommends:

(1) a guarantee that existing contracts for "section 8 existing housing certificates" will be renewed;

(2) the establishment of a federal housing trust fund, dedicated to the production of affordable housing for low and moderate income families;

(3) the extension of the low income housing tax credit beyond fiscal year 1989 and the exemption of bonds financing low and moderate income housing from overall bond caps set in the Tax Reform Act ;

(4) passage of new measures to assist the homeless;

(5) encouragement of tenant management of public housing;

(6) the establishment of a new community based housing supply program; and

(7) the passage of tough fair housing regulations.

Renew Section 8 Contracts

Approximately 800,000 low income households throughout the United States are receiving housing assistance through "section 8 existing housing certificates," which carry a contract term of 15 years. These contracts with public housing agencies to provide funding for section 8 existing housing certificates will begin expiring in 1989.The failure to renew these contracts and make available sufficient funds to insure the continued availability of these housing subsidies for low income families could lead to sudden and catastrophic rent increases, displacement and even homelessness for low income households. Hundreds of thousands of privately-owned, federally subsidized housing units are in danger of being lost because of the termination of assistance contracts.

NCSL therefore favors immediate congressional action to guarantee that existing contracts for section 8 existing housing certificates will be renewed and extended when they expire.

Establish a Federal Housing Trust Fund

At least fifteen states, including California, Florida, and New Jersey, have established housing trust fund mechanisms. These housing trust funds are permanent sources of revenue, which are dedicated to the production of affordable housing for low to moderate income people. The capital for state trust funds comes from general appropriations, transfer fees, or a variety of traditionally untapped revenue sources. The funds are used to expand homeownership opportunities for low and moderate income families and encourage the building or rehabilitation of rental units. Trust funds can also leverage substantial private sector investment in affordable housing.

Although state initiatives provide important housing opportunities, the size of current housing trust funds ($10 million to $25 million per state) and the small number of states which have established these trust funds demonstrate the limited ability of the states to raise the revenue needed to adequately meet their housing needs. The experience of the past six years indicates that the states are incapable of being the sole source of financing for a national commitment to affordable housing. States, however, are capable of being partners with the federal government in the creation and financing of affordable housing.

The National Conference of State Legislatures therefore urges the Congress to establish a national housing trust fund. Such a trust fund could provide over the long term a predictable level of support for the states to finance a variety of affordable housing programs that have proven records of success. NCSL urges that such a trust fund match dollar for dollar the outlay of state trust funds, thereby encouraging the establishment of new state funds and making optimum use of already existing programs. NCSL also urges Congress to consider a trust fund financing mechanism that seeks a new source of revenue to keep with the "pay as you go" principle of program financing.

Extend the Low Income Housing Tax Credit and Eliminate the Cap on Low-Income Housing Bonds

The Tax Reform Act of 1986 (TRA) eliminated many favorable tax advantages for investing in real estate. The effect of these 1986 tax code changes will likely be to accelerate and worsen the housing crisis by discouraging investment in affordable rental housing for low and moderate income households. TRA severely limited the use of tax exempt bonding to subsidize mortgages, the basic affordable housing effort of many states, by establishing state-by-state total bond volume caps which include all bonds issued for housing. TRA replaced these incentives with a new low income housing tax credit for private investors in affordable rental housing for low income families.

NCSL therefore urges Congress to extend the low income housing tax credit beyond Fiscal Year 1989 in order to provide continuing incentives for this private sector investment. NCSL also urges Congress to adopt changes to the tax code that would eliminate the so-called "sunset" provisions applying to mortgage revenue bonds, and that would exempt tax-exempt bonds used to finance the development of affordable low and moderate income housing from the overall bond caps established in 1986.

Enact New Measures to Assist the Homeless

The past decade has witnessed an explosion in the size and diversity of our homeless population. Estimates of the number of homeless vary from 330,000 to 3,000,000 Americans, while the estimates of the annual growth of the homeless population vary from 10 percent to nearly 40 percent.

It is not acceptable in financial or human terms to continue housing large numbers of people in hotel rooms or other emergency facilities. The best method for reducing the number of people assigned to welfare hotels and emergency shelters is to prevent homelessness in the first place, by finding innovative ways to enable people to retain possession of their houses and apartments. A homelessness prevention program would be a cost effective response to the growing crisis of homelessness.

NCSL therefore calls on Congress to pass a National Prevention of Homelessness Act. This Act should grant to states and local governments on a matching basis the financial resources to provide loans and grants for temporary housing assistance not only to persons without housing, but also to persons in imminent danger of losing a house or apartment as a result of layoff, sickness, or other financial problems.

Encourage Tenant Management of Public Housing

The federal government provides assistance through public housing programs to about 1.3 million households, serving families and individuals with extremely low incomes, averaging less than one-third of the national median for all households. This is the only supply of publicly-owned housing which is permanently available at affordable rents to such very low income persons.

NCSL is committed to the preservation and maintenance of public housing as a valuable resource for low income tenants. We support full and adequate funding of the public housing operating assistance program to insure that all public housing, regardless of the management structure, receives sufficient public support to guarantee its continued and permanent availability to low income persons as affordable rental housing.

But, adequate funding is only a precondition of an effective program. Efficient management of this housing should also be one of the highest priorities of national housing policy. Experience has shown that tenant management of public housing can be one method to achieve significant improvements in management, to substantially reduce management and maintenance costs, and to increase tenant pride and participation in the operation and preservation of their housing.

NCSL therefore endorses legislation which would encourage the formation of resident management corporations to facilitate tenant management of public housing.

Establish a Community-Based Housing Supply Program

In many jurisdictions, residents who are fortunate enough to receive federal housing assistance through such programs as the "section 8 existing housing certificate" program cannot find housing units in which to use the certificates because of the acute shortage of housing. Private sector development of low-cost rental housing has been inadequate. Moreover, long-time owners of federally subsidized housing may drop out of these subsidy programs. Thousands of families are threatened with displacement and homelessness as a consequence.

At the same time, the nonprofit housing sector has grown steadily in sophistication and capacity as a potential provider of high-quality, affordable housing for low and moderate income persons. The nonprofit housing sector's work, however, is greatly handicapped by the lack of assistance from the federal government. Nonprofit housing groups have an immediate need for development grants and loans and for long-term, low-cost capital to facilitate the development of low and moderate income housing.

NCSL recognizes that nonprofit participation is necessary in order to increase community involvement and accountability in the design and management of low-income housing. Nonprofit projects will also tend to shield this housing from the cost escalating pressures that confront and tempt the private, profit-motivated housing sector. Nonprofit programs insure the permanent use of housing by low income persons. And, they reassure the public that housing subsidy programs primarily benefit poor people rather than developers and private landlords.

NCSL therefore urges the adoption at the federal level of legislation to create a community based housing supply program, using direct grants to states and local governments. Federal funds would be employed by states and localities to make capital grants and interest free loans for the development of affordable rental housing resources by nonprofit, community-based organizations.

Fair Housing

NCSL also believes it is essential to advance the nation's goal of providing greater access to affordable housing by strengthening federal fair housing laws. Effective civil rights enforcement would complement a renewed low-income housing program.

In Conclusion

We urge you to hold further hearings and explore new ideas for addressing our housing problem. The high cost of housing, especially for low-income families, is a crisis. We are witnessing a decline in home ownership. Low and moderate income Americans must allocate an alarmingly high percentate of their income to purchase or rent minimally adequate housing. In some jurisdictions, it approximates 50 percent of annual income for many families. Homelessness is a natioal shame. Housing discrimination remains a persistent problem.

NCSL has established a Housing Task Force to study this issue, to hold hearings across the country, and to develop new ideas for state and federal housing legislation. We look forward to sharing the results of our Housing Task force study when it is complete, and we would urge you to give the housing crisis the same sustained attention and high priority.

State legislatures, governors, mayors, and county executives have responded to this crisis with new ideas. Over 119 new state housing programs have been adopted since 1980. But, there are limits to the fiscal capacity of states, cities, and counties to address this problem. A new federal housing policy is needed to encourage and finance state, local, and nonprofit housing initiatives. NCSL looks forward to working with Congress and this committee to develop such a new federal housing policy.

NCS BCS

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October 5, 1987

The Honorable Alan Cranston
United States Senate
Chairman, Subcommittee on Housing
and Urban Affairs
SD-535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

On behalf of the governor-appointed state delegate members of the National Conference of States on Building Codes and Standards, Inc., I am pleased to provide the following recommendations to you and the members of the Subcommittee on Housing and Urban Affairs concerning the development of a new framework for a national housing policy.

As you are aware through the meetings which I and members of NCSBCS staff have recently held with your staff, NCSBCS has been charged by the nation's governors to help the states better coordinate their building code and public safety regulatory programs and to serve as the states' national representative in this important area of public safety.

On a day-to-day basis, the American public takes for granted the important role played by building codes and their effective administration and enforcement. The recent severe earthquakes in southern California, however, have brought to the public's attention the vital importance of such safety standards. In a similar fashion, many people routinely fail to recognize the significant impact which building codes have on the housing needs of our nation. While building codes may account for less than ten percent of the cost of a new home, the ability of state and local governments to adopt and uniformly administer model building codes has had a major impact on housing affordability and on the acceptance of new and innovative building products and design systems.

Recognizing the growing importance of building codes and housing, NCSBCS provided information to the President's Commission on Housing (especially in chapters 15 and 16), which released its final report in April 1982. To implement the Commission's recommendations, NCSBCS subsequently took the following actions:

- Published in September 1983, "Reducing the Regulatory Portion of Housing Costs: Models of Effective and Efficient State Building Code Administration for Residential Structures."
- With assistance from NCSBCS, in February 1985, the National Governors' Association (NGA) adopted a housing policy calling upon state and local governments to "reduce the building regulatory portion of the cost of new housing by adopting and maintaining uniform, modern, model building codes and support in the introduction and use of new building technologies."
- In September 1985, NCSBCS, the National Association of Home Builders, the Building Officials and Code Administrators International, the International Conference of Building Officials, the Southern Building Code Congress International, Inc., and the National Fire Protection Association formed a Joint Task Force on Housing. The task force has just released "A Position Paper on a Recommended Building Code System for Residential Construction" (Enclosure A), from which NCSBCS and NAHB will develop model state legislation for the regulation of housing construction.
- In September 1985, NCSBCS established a State Task Force on the Federal Manufactured Housing Program to review the strengths and weaknesses of the current Federal Manufactured Housing Construction and Safety Standards Program administered by the U.S. Department of Housing and Urban Development. After 18 months of meeting with the states, HUD, and industry officials, on March 12, 1987, the task force released its Final Report, "Fulfilling the Public's Trust" (Enclosure B), which contains 12 major recommendations which are designed to overcome existing shortcomings in the current federal program.
- In December 1986, NCSBCS and the nation's industrialized/modular buildings industry formed a Joint Council on Industrialized/Modular Buildings, which this past September released its "Model Rules and Regulations for Industrialized/Modular Buildings" (Enclosure C) for the states' adoption and implementation.

- In July 1987, the nation's governors unanimously adopted two new NGA housing policies (Enclosure D) which endorsed and encouraged state support for and implementation of needed improvements in the Federal Manufactured Housing Construction and Safety Standards Program (as described by the NCSBCS State Task Force on the Federal Manufactured Housing Program), and the adoption and implementation by the states of uniform rules and administrative procedures and interstate reciprocity agreements for industrialized and modular buildings.

- Following up on the two new NGA housing policies and the work completed by the State Task Force on the Federal Manufactured Housing Program and the Joint Council on Industrialized/Modular Buildings, the NCSBCS state delegate members in September 1987 unanimously adopted three resolutions (Enclosure E) pledging their continued support for implementing within their respective states the relevant recommendations on manufactured housing and the "Model Rules and Regulations for Industrialized/Modular Buildings."

These cooperative state government and housing industry actions demonstrate considerable activity by the states to deal with a wide range of problems which have been associated with building codes, public safety, and housing in this country. As an active participant in the work of NGA, the Council of State Community Affairs Agencies, and the National Conference of State Legislatures, NCSBCS applauds your efforts and the efforts of your colleagues in the U.S. Senate to develop and introduce legislation in January to "develop an effective, new framework for a national housing policy." Such a policy has been long needed. Through their work on and release in August 1986 of a report on "Decent and Affordable Housing for All: A Challenge to the States," and their cosponsorship of COSCAA's May 1987 symposium in Boston on "The States and Housing: Responding to the Challenge," the states have identified a number of areas in which the U.S. Congress and the federal government can cooperate with state and local governments to resolve many of the critical housing issues facing this nation. As President of NCSBCS, I urge you and your colleagues on the subcommittee to study the recommendations contained in these final reports issued by NGA and COSCAA as a major source of provisions for your housing bill.

As regards the nation's building codes and standards system, the previous summary of NCSBCS housing activities and the additional support documentation included herein of that work warrants your subcommittee's attention. While the states' regulatory authority over manufactured (mobile) housing was preempted in 1974 when the U.S. Congress exercised the Interstate Commerce Clause of the U.S. Constitution, all other factory and site-built housing has remained under the constitutional authority of the states and/or local units of government.

The NCSBCS state delegate members are unanimously committed that such regulatory authority must remain in the hands of the states and that our nation's pressing housing needs would not be well served by efforts to expand federal preemption from manufactured (mobile) housing to cover other types of residential construction. Indeed, as noted in the second of the enclosed NCSBCS delegate resolutions of September 16, 1987, HUD is actively considering proposing regulatory or legislative changes to the Federal Manufactured Housing Construction and Safety Standards Act of 1974 which would remove HUD from the program and, perhaps, return all or a significant portion of this federal program to the states to administer jointly.

The above remarks, however, do not mean that NCSBCS and its members believe that there is no place in your proposed "new framework" for congressional and federal action in the area of building codes and standards. On the contrary, in light of the states' recent commitment to cooperate with the nation's housing industry to reduce and/or eliminate barriers to affordable housing created by our current building codes and standards system, there is indeed a major positive and supportive role which the U.S. Congress can take to help assure that such needed regulatory reform occurs across this country at the state and local government levels. There are three areas in which federal legislation would be of significant assistance to this important effort.

I. Industrialized/Modular Buildings

As noted in the enclosed background materials and resolutions, factory-built housing and commercial structures are playing an increasingly important role in this country. Thirty-five states today regulate the design and construction of such units. Of those 35, 19 are capable of entering into interstate reciprocity agreements to facilitate the construction, shipment, and siting of such structures in other states. Of those 19, 12 states have some degree of interstate reciprocity. Through their recent activities, NCSBCS and NGA have initiated a serious commitment to eliminating the existing barriers to uniform code administration and establishing an effective regional or national interstate reciprocity system for industrialized/modular buildings. The industrialized/modular housing industry also has made a commitment to pursue the development and implementation of such a system through the work of the Joint Council on Industrialized/Modular Buildings.

In light of that commitment and the progress being made by the Joint Council, I urge you and your colleagues to consider taking the following actions in developing your proposed "national housing policy."

A. Authorize the Secretary of HUD to provide funding support for the Joint Council on Industrialized/Modular Buildings to expedite development of the reciprocity system. The Joint Council currently is funded by NCSBCS, which acts as its Secretariat, and through the 21 Joint Council members.

B. Authorize the Secretary of HUD to work cooperatively with the states and their national organizations, including NCSBCS, to research and develop interstate compacts through which the states can collectively and cooperatively regulate the design, construction, and siting of industrialized/modular buildings.

C. Provide incentives to encourage state adoption of appropriate legislation in those states which do not currently have statewide regulatory authority over the design and construction of industrialized/modular buildings.

II. Manufactured (Mobile) Housing

The enclosed copy of the Final Report of the NCSBCS State Task Force on the Federal Manufactured Housing Program contains a detailed history of this important federal regulatory program and describes significant strengths and weaknesses in the way that program is currently administered. As called for by the nation's governors in their NGA housing policy amendment of July 28, 1987, and by the NCSBCS state delegate members by their resolution of September 16, 1987, significant improvements must be made in this program if the public safety interests of consumers and production desires of industry are to be met.

In developing your national housing policy, I would urge you to consider the following actions:

A. Consider legislative changes which would enhance HUD's ability to effectively administer and enforce this vital federal program while strengthening the U.S. Congress' previous commitment to the states that they will continue to be active partners with HUD in the administration of the federal Act.

B. If HUD is adamant about removing itself from or reducing its role in this program as described in Title VI of the Housing and Community Development Act of 1974, then the U.S. Congress should legislatively consider either:

1. Working with the states to return to them to collectively administer those aspects of the federal program from which HUD wishes to withdraw; or

2. Working with the states to establish and administer an effective national interstate compact through which the states can collectively administer a uniform national program for the design, construction, and siting of manufactured housing.

III. Housing for the Homeless

The passage and signing into law this summer of the Stewart B. McKinney Homeless Assistance Plan (P.L. 100-77) was an important first step towards resolving a national disgrace. Through its participation in several of the national symposiums on the homelessness issue, NCSBCS has a special concern for the issue of public safety in the emergency and long-term shelters for our homeless population. While NCSBCS believes that the overall focus of further federal legislation on the homeless must focus on the issues of how to avoid creating more homelessness in America, we do urge that you give some consideration to helping state and local governments develop and adopt appropriate building codes and standards governing emergency and long-term homeless shelters. Our recommendations in this regard are as follows:

A. Authorize the Secretary of HUD to work cooperatively with the nation's model building and fire code organizations and state and local governments to develop model state and local codes and standards for temporary, emergency shelters for the homeless and long-term homeless shelters.

B. Authorize the Secretary of HUD to provide additional funding for the construction of such shelters.

Lastly, as regards the issue of avoiding future growth in the number of homeless in America, NCSBCS wants to reiterate a point which has been made throughout our work on site-built, modular, and manufactured housing. When concerning oneself with the need to promote the construction of affordable housing in this country, one must be equally concerned with the long-term affordability of such structures as with the short-term initial construction and purchase costs. New housing which is neither energy conserving nor durable is not going to be affordable. It would be ironic that in our push to stimulate "affordable housing," we merely take actions in the late 1980's which end up requiring us to make major financial commitments within the next two decades to replace such housing which has deteriorated to the point that it is no longer habitable.

In closing, on behalf of our state delegate members and the governors which we serve, I want to thank you again for extending to NCSBCS this opportunity to provide you with our thoughts on what should be included in a new national housing policy. If you or any member of your subcommittee or staffs have any questions concerning this letter or its background support materials, please do not hesitate to contact me at (501) 371-1641, or our Executive Director, Robert C. Wible, at (703) 437-0100.

As you begin to schedule your hearings for early 1988, please keep in mind that NCSBCS would be pleased to appear before your subcommittee to address any of the issues raised in this letter.

Thank you again for your interest. Best wishes for the development and passage of an effective national housing bill.

Sincerely,

Mary Beth Bowman

Mary Beth Bowman
President, NCSBCS

MBB:RCW:dtb
Enclosures

cc: The Honorable John Sununu, Governor of the State of New Hampshire, and Chairman, NGA
Raymond Scheppach, Executive Director, NGA
Richard Geltman, Staff Director, NGA
Samuel R. Pierce, Jr., Secretary, HUD
Members of the NCSBCS Board of Directors
NCSBCS State Delegate Members

National Governors' Association

John H. Sununu
Governor of New Hampshire
Chairman

Raymond C. Scheppach
Executive Director

August 21, 1987

The Honorable Alan Cranston,
Chairman, and
The Honorable Alfonse M. D'Amato,
Ranking Minority Member
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators Cranston and D'Amato:

Thank you for the invitation to the National Governors' Association to work with the Senate Housing Subcommittee in the development of a new housing policy. I am referring your letter to Governor John Sununu, the new Chairman of NGA, and to Governors Edward DiPrete and Roy Romer, the new Chairman and Vice Chairman, respectively, of NGA's Committee on Economic Development and Technological Innovation which has jurisdiction for dealing with housing policy issues. I am attaching NGA's current housing policy for your use.

I feel sure that NGA will want to respond to your request more directly, but it is unlikely that NGA will be able to provide you with any official response by your October 5 deadline. To the extent that the NGA Economic Development Committee would want to offer official suggestions that went beyond NGA present policy, our process would require all the Governors to review those new suggestions in February. Nevertheless, the Governors and NGA staff can certainly work with you in the context of our present policy and provide you with the best advice on where NGA is likely to be headed.

Housing is certainly becoming an increasing problem, and NGA would like to work with you in developing a comprehensive federal, state and local government response in conjunction with the private sector which plays the primary role in providing shelter for our citizens.

Sincerely,

Bill Clinton

Governor Bill Clinton

Attachment:
NGA Housing Policy Position

cc: Governor John H. Sununu
Governor Edward D. DiPrete
Governor Roy Romer

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National Governors' Association

John H. Sununu
Governor of New Hampshire
Chairman

Raymond C. Scheppach
Executive Director

E. - 4

HOUSING ISSUES AND NEEDS

The 1949 national policy of "a decent home and a suitable living environment for all Americans" must continue to be a major national priority for the 1980s. The nation is still far from reaching this goal, particularly in the area of affordable housing. Hence, a national housing goal is as important now as it was in 1949. Therefore, Congress should again articulate its commitment to a national housing goal.

The supply of affordable housing in most markets is not adequate to meet the demand; the shortage is particularly acute in the rental housing sector and in regions experiencing rapid population growth. Housing costs have risen faster than incomes, making decent housing unaffordable for many people and raising the costs of subsidy programs. The cost of housing is a particular problem for low- and moderate-income families, and barriers to choice posed by racial discrimination and other discrimination have not been fully overcome.

The national housing goal must remain a high priority for the federal government, as well as the states, local governments, and the private sector during the 1980s. Housing programs should be designed to encourage joint public/private efforts to finance, build, and maintain an adequate supply of affordable housing.

Addressing Problems of Supply and Cost

In the 1980s, about 42 million Americans will reach the prime home-buying age of thirty, compared to about 30 million in the 1970s. The trend toward more single-person households not only increases aggregate demand for housing but also results in changes in the type of housing units in demand. Growth in demand also results from homeownership being an excellent personal investment in inflationary times.

The housing market in many areas of the country has been unable to satisfy this growth in demand. The shortfall in supply is attributable to two major factors: the shortage of capital for new residential construction and the rapid escalation of housing costs.

Housing construction is one of the most cyclically sensitive sectors of the economy. Minor fluctuations in interest rates can produce major changes in the mortgage market and production levels for new housing. Although the recent growth of long-term certificates of deposit and expansion of the secondary mortgage market have mitigated this problem somewhat, residential construction still remains highly sensitive to cyclical changes in the economy.

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Sharp increases in the costs of housing over the past decade have placed the dream of owning a single-family home beyond the reach of a growing proportion of households. The market has not provided new alternative home ownership opportunities, e.g., new condominiums, in sufficient quantities to satisfy the demand, nor has construction of new multifamily rental housing been sufficient to meet rental demand. Increases in construction and financing costs have been a significant constraining factor in both the single-family and multifamily housing markets. In many areas, operating costs for multifamily rental housing have increased more rapidly than rents, further eroding investment and contributing to severe shortages of rental housing.

The present housing crunch can be attributed in part to the cumulative effects of government monetary and fiscal policies, environmental and other restrictions on residential construction, rent control and condominium conversion, and program investment decisions. Because government policies exert a major influence on the housing market, solutions to the related problems of supply and cost depend, in part, on governmental action to remove unnecessary barriers to a smoothly functioning housing market. Direct government involvement should be focused on those areas where the private sector is unable or unwilling to address the needs of particular markets or population groups. In addition, governmental agencies continue to have an important role in facilitating an efficient system of mortgage financing.

Federal Actions Suggested

- A more stable flow of capital into residential construction would result in a more smoothly functioning housing market and a lower rate of growth in housing costs. A thorough reevaluation of the regulation of thrift institutions and the effects on housing finance of conventional monetary policy should be undertaken to identify alternative approaches that can "smooth out the bumps" in the availability of funds for residential construction. Particular attention should be given to measures that would enable thrift institutions to compete more effectively for funds during periods of high short-term interest rates.

- The federal government should, consistent with adequate investor protection, encourage the activities of both federal and private issuers and guarantors of mortgage-backed securities in order to maintain an adequate flow of capital through the secondary mortgage market. Federal policy should continue to recognize the central role played by public or quasi-public institutions involved in the secondary mortgage market. The ceiling on the size of single-family loans purchased by FNMA and FHLMC should be adjusted for high cost areas to permit homebuyers and financial institutions in all sections of the country to benefit equally from the activities of these federally sponsored corporations.

- Home ownership and rental subsidy programs should be targeted to low- and moderate-income households but also should encourage a mix of family income levels in assisted housing. These programs should be reviewed regularly to ensure that interest rates and mortgage limits are set at realistic levels.

- To reduce the extreme effects of the money market cycle on mortgage availability, private lenders should be encouraged to offer more flexible mortgages, e.g., variable rate, graduated payment, without precluding consumer choice of conventional financing. Federal regulatory agencies should monitor the growth of these new mortgage instruments and, where necessary, should consider limitations to protect lenders and borrowers alike against unacceptably high economic risks.

- Programs utilizing a shallow subsidy approach should be retained to increase the supply of rental housing, provided such a program does not reduce commitments to low-income rental housing needs and itself contains a low- or moderate-income component. Such a program should permit states the flexibility needed to assure production of rental housing in areas where the problems are most severe. Determination of the mix between new and existing housing units for purposes of low-income rental subsidy programs should be based on community needs, as reflected in locally developed housing assistance plans.

- The Mortgage Revenue Bond Program is an important vehicle for the financing of home ownership in light of continued high interest rates and housing costs that place home ownership out of the reach of many would-be first time homebuyers. The Mortgage Subsidy Bond Tax Act of 1980, the Deficit Reduction Act of 1984, and the Tax Reform Act of 1986 placed significant restrictions on the program, and there is no need to further restrict the program. Congress must eliminate the provision that "sunsets" the Mortgage Revenue Bond Program on December 31, 1988. The Mortgage Credit Certificate Program, newly authorized by the 1984 act, should remain an optional alternative to, not a mandatory replacement for, the states' use of mortgage revenue bonds. Consideration should be given to utilizing existing public and private programs to operate in tandem with mortgage revenue bonds to reduce home ownership costs for target populations.

- In many jurisdictions, the construction of rental housing other than luxury dwellings is economically infeasible without tax-exempt financing. Therefore, Congress should continue to permit state housing finance agencies to issue tax-exempt multifamily housing industrial development bonds. To further reduce finance costs and thus promote affordability for low- and moderate-income tenants, federal guarantees should continue to be available in tandem with tax-exempt bonds for housing.

- Federal housing policies should recognize the special needs of rural areas, and the federal commitment to rural housing should remain intact. The Farmers Home Administration should encourage joint federal/state initiatives to develop affordable rural housing.

- An explicit federal strategy to avert housing abandonment should be developed. The most effective strategies are likely to be those that combine and target the resources of both federal and state government. Existing federal programs therefore should provide states with flexibility to target them to buildings threatened with abandonment or acquired by government as a result of foreclosure. Expansion of the urban homesteading program and provision to set aside Section 8 units for this purpose should be given priority consideration in developing an overall approach to the problem of abandonment.

- Private pension funds, which are federally regulated pursuant to the Employee Retirement Income Security Act, hold approximately $700 billion in assets. Historically, only a small percentage of those assets have been invested in housing. The federal government should carefully consider whether there are any unnecessary regulatory barriers to pension fund investments in residential mortgages.

- Manufactured (mobile) homes are an important source of affordable housing to a growing segment of our population. The states' regulatory authority over the design and construction of such homes was federally preempted in 1974, yet the states have retained a vital interest and cooperative role in the federal regulation of these homes by the U.S. Department of Housing and Urban Development. A recently completed state sponsored study reviewed the strengths and weaknesses of the federal manufactured housing construction and safety standards program and found the program wanting in a number of major aspects. The U.S. Congress and HUD should work cooperatively with the states and industry to improve the quality of manufactured housing. In such an effort, HUD should continue to work with the states to reaffirm and strengthen the vital regulatory and administrative roles which the states continue to provide under various aspects of the federal manufactured housing construction and safety standards program.

State Actions Suggested

- Forty-nine states have established housing finance agencies that use tax-exempt revenue bonds to meet the home ownership and rental housing needs of low- and moderate-income residents. States are also responsible for overseeing the issuance of mortgage revenue bonds by local units of government and for ensuring that these programs conform with legitimate public purposes. States should continue to assure that this indirect federal subsidy is used in a responsible and effective manner to fill gaps in the private mortgage market. States also should encourage their housing finance agencies to explore and evaluate the uses of the newly authorized Mortgage Credit Certificate Program and the Low-income Rental Housing Tax Credit.

- While federal programs play a significant role in stimulating new condominium construction, regulation of conversion and protection of tenants' interests can be addressed most effectively in response to particular market characteristics at the state and local level. The loss of rental units and displacement of tenants due to condominium conversions are phenomena best regulated at the state level.

- As state and local public employee pension funds grow in importance in national capital markets, they are increasingly able to play an important role in housing finance. States should consider using their pension funds to provide mortgages to public employees, shared-equity programs to lower initial down payments in return for a share of eventual capital gains, and direct provision of loans for single-family housing.

- Due to the growing demand for and critical shortage of decent affordable housing, states should develop strategies to address these problems through joint public/private cooperation. States should work with lending institutions, real estate developers, builders, community groups, and local governments to encourage production of new housing and reclamation of abandoned buildings for rehabilitation and vacant lots for new residential construction. Such efforts should include assistance to households whose current housing needs are not currently being met, whether these be low-income individuals looking for temporary shelter or first time home buyers unable to afford a down payment. States, in conjunction with appropriate representatives of the private sector, also should promote research and development initiatives that explore new methods and approaches for dealing with housing needs and shortages.

- In recent years, the decline in Americans' ability to purchase homes and find affordable rents has become a national crisis. States can play a significant role in reducing housing costs. States should examine, where appropriate, their land development and housing policies and regulations to consider amending those that unnecessarily add to the costs of housing production. States also should provide information to their local governments about ways to reduce housing production costs and make housing more affordable.

- In recent years numerous federal, state, and private sector studies have demonstrated the cost savings that are possible to the homebuyer through reforms and streamlining of the nation's building regulatory process. States, working together with their units of local government, should seek to reduce the building regulatory portion of the cost of new housing by adopting and maintaining uniform modern model building codes and supporting the introduction of new building technologies. State and local government further should implement those codes through streamlined administration techniques and provide positive support for the adequate education and training of state and local code enforcement personnel.

- Industrialized and modular buildings, which are built in a factory and sited on permanent foundations, are a growing segment of the nation's afforadable housing and commercial building stock. These structures are frequently being manufactured in one state and sited in another. The regulation of such structures varies from state to state and locality to locality and imposes confusing and costly burdens on state and local building officials, the modular building industry, and the consumer. Currently, manufacturing facilities must undergo numerous inspections and build to the codes of several states while state governments must inspect plants in more than one state. This costly and duplicative regulation ultimately costs the consumer more and restricts market access and use of new technologies. To supply the growing demand for safe, decent, and afforadable housing and commercial buildings, state governments should work with the industrialized/modular buildings industry to develop and adopt uniform administrative regulatory procedures and implement interstate reciprocity agreements for the design and construction of modular buildings.

- States should actively monitor the progress of Farmers Home Administration (FmHA) state offices in obligating their allocated funds for rural housing. Where appropriate, states should work with FmHA officials to remove obstacles to participation in FmHA housing programs.

Meeting Low-Income Housing Needs

While national housing policies should be designed to ensure an adequate supply of housing to satisfy the demands of the general population, particular attention must be given to meeting the needs of low-income households. Past federal subsidy programs for new construction and substantial rehabilitation of rental housing have been characterized by high unit costs. Although rent subsidies for existing housing units may appear to lower unit costs and stretch the housing assistance dollar further, this approach is not responsive to low-income needs in areas where the supply of existing housing is tight.

The range of federal subsidy programs directed to meeting low-income housing needs should include programs that effectively leverage federal funds to produce new units as well as programs that provide rental assistance for existing units. Priority also should be given to programs that protect the physical and fiscal soundness of the nation's existing inventory of assisted low-income housing. Government at both the federal and state levels should strive to maintain sufficient levels of activity, improve program flexibility and adaptability, and ensure effective administration of programs in response to local needs and conditions.

Greater recognition should be given to the fact that programs that produce new or rehabilitated housing units provide more than shelter. They also play an important role in stabilizing families and revitalizing distressed neighborhoods. Thus, low-income housing programs should be viewed as an important component of community and economic development efforts.

Federal Actions Suggested

- Although past and present federal programs have improved housing conditions and housing choices for millions of Americans, there remains a significant shortfall in the amount of decent and adequate housing at rents that low-income households can afford. For this reason, low-income housing programs should be maintained at adequate levels.

- To the extent that certain construction programs may be considered too costly, greater reliance may be warranted on rehabilitation of available buildings to increase the supply of decent housing for low-income tenants. Such programs should be implemented in a manner that assures that the current tenants of renovated units are not involuntarily displaced.

- The federal government should accord high priority to maintaining the physical and financial soundness of existing low-income, federally assisted housing and protect substantial governmental investments in these properties while assuring their continued viability and affordability for low-income tenants.

- Increased attention is being given to the idea of "privatizing" public housing, i.e., selling public housing units to the tenants. Demonstration projects to explore tenant purchases of public housing are more appropriate at this stage than wide-scale national programs. Federal subsidies should remain in place where necessary to help low-income owners maintain their units after they purchase them.

- To ensure that federal low-income housing resources are directed to projects where the need is most acute and the impact greatest, program dollars should be allocated in accordance with local, regional, and state plans and priorities.

- The Farmers Home Administration has negotiated formal cooperative agreements with a number of states to assure that federal funding decisions are consistent with overall state priorities. The U.S. Department of Housing and Urban Development should make the necessary program adjustments to permit and encourage similar agreements with states.

- Total reliance on a rental subsidy approach should be discouraged. However, Congress should continue to fund both Section 8 housing certificates and housing vouchers while carefully monitoring these programs' impact and effectiveness in meeting low-income housing needs. Fair market rent determinations should be pegged closely to local market conditions and should be adjusted frequently as market conditions change.

- Housing program regulations should be as simple and straightforward as possible and should be consistent among all agencies that finance housing so red tape costs are minimized and private sector participation is not discouraged.

- Federal block grants to states, whether for the construction, subsidization, rehabilitation, or operation of housing units, may be an appropriate mechanism for federal assistance. Any block grant proposal should be funded at substantially the same level as the federal programs to be consolidated. The block grants should be characterized by flexibility, adequate administrative funds, targeting to low- and moderate-income individuals, and minimal mandates. A block grant proposal should permit each state to choose to administer the program or leave the administration with the federal government.

State Actions Suggested

- States should continue the roles they have played successfully -- developing appropriate housing strategies, filling in gaps between federal programs, complementing and adapting federal programs to work in local settings, and providing technical assistance to local agencies and private developers who utilize federal and state programs.

- Because state housing finance agencies (HFAs) have been particularly successful in forging linkages with federal programs, states should continue to strengthen their HFAs and target their resources to complement federal and private sector efforts to meet low income housing needs.

- Many states have found it beneficial to act as housing authorities for smaller communities that otherwise lack the resources and expertise to participate in the Section 8 and public housing programs. This approach warrants consideration by other states.

- States should encourage the use of available housing programs as a component of neighborhood revitalization efforts, in conjunction with community development block grants and similar programs. State technical assistance can help localities effectively combine federal housing and community development funds for maximum benefit.

Ensuring Fair Housing Policies and Practices

The rights of free choice in the housing market are protected by federal and state laws. Enforcement of federal fair housing laws is delegated to states that have comparable legislation. This augments the enforcement provisions of the federal law with the generally greater authorities the states possess. Effective enforcement of federal and state fair housing laws is an important step toward ensuring equal opportunities and preventing overt discrimination in housing.

However, there are some subtle barriers to freedom of housing choice that can be more difficult to identify and overcome, e.g., mortgage or insurance redlining, exclusionary zoning practices. In addition, the market often does not meet the needs of those with special housing requirements and consequently deprives them of the range of choice available to others. While federal and state regulations, enforcement mechanisms, and disclosure requirements are necessary tools to eliminate unfair housing practices, only through the active involvement and commitment of the private sector can the promise of equal opportunities in housing be fulfilled.

Federal Actions Suggested

- Enforcement of the federal (and state) fair housing statutes is uneven, in part because of the federal government's reliance on the powers and resources of state agencies. To improve the enforcement record, the federal government should provide sufficient resources to the states for enforcement.

- The Home Mortgage Disclosure Act is an important instrument for overcoming mortgage redlining, one of the indirect obstacles to equal opportunity in housing. The program should be made permanent and its implementation should continue to be carried out as diligently as in its initial years.

- In recent years, a number of federal initiatives have been undertaken to encourage expansion of housing opportunities for the disadvantaged through demonstration programs, incentive mechanisms, and the establishment of priorities within existing federal programs. Efforts to develop "partnership" agreements with state and local governments represent a similar positive approach to fair housing. The Governors endorse the provision of positive incentives for achievement of fair housing through the development of a cooperative partnership approach to shared federal/state objectives.

State Actions Suggested

- States should continue aggressive enforcement of state and, where delegated, federal fair housing laws. In addition, states should encourage affirmative efforts by local governments to eliminate exclusionary zoning and other local restrictions that pose barriers to freedom of choice in housing.

- State housing finance programs can be used to expand housing opportunities as a positive complement to enforcement of antidiscrimination laws. States also should assume a leadership role in working with the full range of commercial sectors involved in housing, e.g., builders, owners of rental housing, realtors, lending institutions, to gain active private sector involvement to eliminate discriminatory practices and assure equal housing opportunities.

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Framework for a New National Housing Policy

Submitted to the
United States Senate Subcommittee on Housing and Urban Affairs
October 5, 1987

1. A national housing policy should affirm rehabilitation as an integral component of that policy by specifically encouraging it.
    a. Revitalize existing communities
    b. Concentrate development areas
    c. Enhance local economic base

2. Rehabilitation is a labor-intensive undertaking. More of the construction dollars are expended for local labor and remain in the community where the project is located.
    a. Bolsters local economy
    b. For every $1.00 of federal tax credit expended, $.88 is returned to federal, state and local governments through increased revenues from property, sales and income taxes.
    c. Creates new jobs and employment training opportunities where labor pool is located
    d. More energy-efficient than new construction

3. Consistency of policy is an important factor. A long-term policy is necessary to allow the development industry and the investment community sufficient time to gain a working knowledge of it.
    a. Provide incentives for entrepreneurs
    b. Attract private & institutional investors to provide needed pools of capital
    c. Recognize lead time required for education and implementation of programs

4. Preservation of the existing inventory of federally assisted rental housing must be an important component of a national housing policy. Specific actions, however, must be part of a broader housing policy.
    a. Flexibility is required to address range of circumstances
    b. Encourage moderate rehabilitation of property and enhancement of project's financial performance
    c. Design incentives to encourage owners to extend commitments to provide affordable housing
    d. Provide assistance to those renters who might now be able to become homeowners

5. Delivery Mechanism
    a. Diverse housing needs create market segments, each requiring different housing "products"
    b. Policy must foster varied skills needed to operate in each segment
    c. Build on experience of professional housing providers

6. Conclusion
    a. A national housing policy must actively encourage rehabilitation and not merely imply its support
    b. Utilize rehabilitation's ability to focus both public and private investments into existing communities
    c. Allow national housing policy to mature over time
    d. Foster different skills of professionals who produce housing for each market segment
    e. Continue and expand upon existing incentives for rehabilitation
    f. Harness rehabilitation's ability to upgrade renewable resources

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Framework for a New National Housing Policy

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1. A national housing policy should affirm rehabilitation as an integral component of that policy by specifically encouraging it. National policy should harness rehabilitation's potential for enhancing local economic initiatives by focusing its impact to where it is most needed.

A certain amount of development will inevitably occur in an expanding society. However, rather than encouraging the continued expansion into outlying areas, a national housing policy should direct development to revitalize existing communities. Such direction would result in visible improvements to older neighborhoods and would allow the remaining open land to be preserved.

Concentrating development in older developed areas will enhance local commerce, create new jobs and expand the tax base. It will increase the utilization of existing public facilities such as transportation systems, communication networks and utility infrastructures. A larger user base will be better able to financially support the modernization and upgrading of these facilities.

2. Rehabilitation is a labor-intensive undertaking. The U.S. Department of the Interior estimates that while new construction projects are 50% labor intensive, rehabilitation projects are as high as 75% labor intensive.

In 1977, the Advisory Council on Historic Preservation surveyed projects funded under the Economic Development Act and found that whereas new construction produced 70 jobs for every $1,000,000 expended, reconstruction yielded an average of 109 jobs per $1,000,000.

A higher percentage of the construction funds in rehab jobs are expended for local labor instead of for construction materials which are purchased either outside the region or from foreign companies. Therefore, a higher percentage of a rehabilitation project's funds remain in the local economy rather than being dispersed throughout the country, or possibly even exported.

The Advisory Council on Historic Preservation estimates that for every $1.00 allocated to a historic rehabilitation project by the federal government through the historic tax credits, $.88 is returned to the federal, state and local governments through increased revenues generated by the property, sales and income taxes.

The concentration of rehab developments in established population centers means that these projects place new jobs at the center of those labor pools and create employment and training opportunities where they are most needed.

Rehabilitation is also a more energy-efficient method of construction. A 1987 Energy Department study concluded that rehab consumed 23% less energy than comparable new construction. The study estimates that it requires 49,000 BTU's per square foot to rehabilitate a structure compared with 65,200 BTU's per square foot to construct a new building.

3. Consistency of policy is needed to provide incentives for entrepreneurs to undertake these projects and to attract private individuals and institutional investors to place their funds into the needed pools of capital.

Any new tax incentive or development funding program requires a lead time for the industry to become educated about the new tools and then to be able to implement them into the appropriate projects. It takes even longer for the investment community to respond.

The historic investment tax credit enacted in 1981 has encouraged developers to evaluate restoration rather than new construction. In its 1986 report to the President and Congress, the Advisory Council on Historic Preservation (ACHP) states that developers "who a decade ago would have demolished historic buildings as economically inviable impediments to development are now integrating them creatively into their plans."

ACHP estimates that since 1981 when the 25% historic preservation tax credit was legislated, 17,000 projects have been rehabilitated. Approximately half of these projects were designed for residential use, the remaining half were designed for commercial use.

The new low-income housing tax credit, legislated as part of the Tax Reform Act of 1986, is beginning to be incorporated into the financing of multifamily housing projects. One-quarter of the way into the program, the multifamily development community is only now able to rely upon limited practical experience in working with the credit. The new housing credit is beginning to gain acceptance as a viable tool but recognition is growing that it requires further refinement. Furthermore, the investment markets must still be convinced of its viability before a significant flow of capital into tax-credit assisted low-income housing can be anticipated.

Housing requires the ongoing availability of patient, longterm capital. A consistent policy is necessary to reassure investor confidence.

4. Preservation of the existing inventory of federally-assisted housing needs to be considered within the context of a broader, comprehensive housing program.

Housing must be designed to meet the needs of those tenants who are dependent on the federal housing subsidy as well as for those tenants who now might be able to become homeowners.

A national policy in this area is difficult to develop. Flexibility must be provided to deal with each case individually. The needs of the tenants must be considered as well as the dynamics of the market in which a project is located.

In some cases, moderate rehabilitation of the structure is needed along with an increase in the project's economic performance in order to finance the improvements. In other cases, owners can be given incentives to extend their commitments to operate the housing for lower income families. In still other cases, it should be recognized that the most beneficial route might be to allow a project to opt out of the subsidy program and re-channel those subsidy funds into production of new units that would better serve the needs of residents on limited incomes.

5. Delivery Mechanism

The nature of the structures available for rehabilitation along with the demographics of a local housing market dictate the type of housing options that will be available in that market. A wide variety of housing is necessary to meet the diverse needs of today's population. Several types of organizations, with different sets of skills, are necessary to deliver the housing that is required by each of the market segments.

In order to meet such varied needs, public policy must recognize and foster the skills necessary to operate in each market segment. Professionals as diverse as single-family homebuilders, not-for-profit development organizations, local rehabbers and professional apartment development firms with access to the national capital markets are all required to produce the volume and variety of housing which our nation requires.

A national housing policy must place its foundation upon the experience and delivery networks of the builders, owners and managers of both market-rate and low-income rental units who have matured with the federal housing programs over the years. It is in this sector of the housing industry that the capacity for large volume production and comprehensive property management exists.

National policy should also nurture the fresh ideas of the not-for-profit housing sector and encourage their growth. These providers will produce the highly-targeted community-based housing options.

The public, not-for-profit and private sectors of the housing community must work as partners to identify America's housing needs and design programs to fulfill those needs.

Conclusion

A national housing policy must actively encourage rehabilitation and not merely imply its support.

Rehabilitation focuses both public and private investments into existing communities. It improves the physical appearance of the neighborhood, creates new job opportunities, increases the size of the market for local consumer goods and services and provides a larger user base to support public facilities, transportation networks and utilities systems.

A strong housing policy is one which has matured over time and has been refined in accordance with both the public and private sectors' direct experience. It must take into account the changing needs of the population to be housed and recognize the unique skills of the professionals who produce housing for each of the different market segments.

The existing programs for rehabilitation, the historic investment tax credit and the new low income housing tax credit, are effective tools. They should be left intact, and in the case of the housing credit, refined. Perhaps a new policy should consider extending the 10% investment tax credit available to buildings rehabilitated for commercial purposes to the renovation of structures for residential use.

The balance of this century will find this nation focusing its attention more on the environmental management and clean-up issues which are now beginning to emerge.

The federal government should harness rehabilitation's ability to direct public and private investment towards upgrading renewable resources. Through rehabilitation, development could be targeted to existing communities and allow the remaining undeveloped land to be preserved as such.

Rehabilitation can serve as the catalyst to educate our nation on the need to build our environment with an eye towards conserving our resources while providing for the changing needs of an expanding society.

Summary

National Housing Conference Submission

Recommendations of the National Housing Conference to Senate Subcommittee on Housing and Urban Affairs

The National Housing Conference agrees with the statement of the Subcommittee's Chairman and Ranking Minority Member that the "need for decent, affordable housing has never been more urgent", at least in recent years. Much of the significant progress toward meeting this need, that had occurred during the last half of the 1960s and during the 1970s, has been lost in recent years, as programs were terminated or had their funding reduced significantly. That direction must be reversed.

Adding to the problem is the fact that, over the next fifteen years, hundreds of thousands of housing units occupied by lower income tenants with assistance under the various Federal programs of the past two decades will either no longer be eligible for assistance or be able to be removed from the system. While this result is consistent with the nature of the programs, the almost total cessation since 1981 in Federal funding for significant annual additions to the lower income housing stock has only exacerbated the situation.

Part 1 - Production of Additional Assisted Housing

The National Housing Conference believes it is essential that we resume efforts to increase the stock of housing available for the lower income. While the programs of the past have not been perfect and in many cases they could stand perfective fine tuning, they did produce many hundreds of thousands of decent housing units for the lower income. That accomplishment should not be ignored. NHC urges the Subcommittee to look carefully at the programs of the past and to include a continuation of many of those programs, with improvements where appropriate, in any legislative package the Subcommittee proposes. Among the programs we believe should be continued are the following:

1. Public Housing -- Additional production, either through new construction, substantial rehabilitation or acquisition, is needed, along with adequate funding to modernize the present stock of public housing, much of which is twenty years or more older; adequate operating subsidies must be provided for both the present and new additions to the stock of public housing.

2. Farmers Home Administration -- The FmHA single family and rental programs, including rural rental assistance, need to be continued at reasonable funding levels and should continue to be administered by FmHA.

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3. Section 202 -- For almost thirty years this program has played a significant role in assisting non-profit organizations to provide housing for the elderly and the handicapped.

4. Section 8 Certificates -- A useful tool in areas with significant rental vacancy rates and for providing housing for large families and others with unique problems; similarly, the Moderate Rehabilitation Program has provided a means of returning to standard condition housing units that have fallen below acceptable conditions for decent occupancy, thus increasing the stock of available decent housing for the low income.

5. Section 235 -- An important means of enabling the upwardly mobile, lower income to achieve the American dream of homeownership and for society to realize the benefits, such as neighborhood stability, that will flow from that homeownership.

6. Housing Development Grants -- With high interest rates apparently returning, this program becomes more important as a means of not only increasing the rental units available in tight housing markets but, at the same time, providing a portion of those units for long-term availability to the low income.

7. Low-Income Housing Tax Credit -- While only recently enacted and not within the jurisdiction of the Subcommittee, the low-income housing tax credit has the potential of being a useful incentive. It needs many technical amendments which should be acted on as soon as possible, and it should be extended beyond its present 1989 expiration.

The above-listed programs are all still functioning, although in many instances on a very limited basis. They are all important and should be continued at reasonable funding levels. With exception of the FmHA programs in rural areas, they serve discrete and limited segments of the housing market. They do not and were not designed to provide significant, annual additions to the stock of housing units available for the lower income.

That need, until December, 1983, was met through the Section 8 New Construction and Substantial Rehabilitation Programs. Prior to that, it was met by the 236 Program and, prior to the 236 Program, the need was met by the Rent Supplement and 221(d)(3) BMIR Programs. Those programs were braod-based, providing assistance to profit-motivated developers, nonprofit organizations and to, or through, state or local housing agencies. Projects developed under these programs also benefited from the tax advantages available, until the 1986 Tax Reform Act, to owners of real property. As a result, hundreds of thousands of units were built or substantially rehabilitated.

While it is not necessary that these individual programs be resurrected, it is important to recognize those of their aspects which enabled large-scale production to take place and then to incorporate those aspects into whatever new program the Subcommittee may put together. Key among these we believe are: (1) reliance on broad participation by profit-motivated developers, nonprofit organizations and governmental entities; and (2) the subsidy mechanism must be flexible enough so as to cover tenants of varying income levels but without sufficient income to pay their own way.

Keeping these two key components in mind, the program can go several different ways. We have set out below some aspects that we urge the Subcommittee to consider in designing a new lower income housing production program:

1. Assistance should be available directly from the Federal Government (presumably HUD) to those who will develop and own the housing. This should assure the widest possible dispersion of the funds, with allocations being made based on the need of the locality in which the housing is to be provided.

2. Funds should also be made available to state and local housing agencies for use in conjunction with their own efforts to increase the supply of lower income housing. The manner in which these funds are used by those agencies should be limited only by the requirement that the use of the funds results in the production of lower income housing and by such few other safeguards as are needed to assure that monies are not misapplied, misappropriated or otherwise misused. This will permit the many innovative approaches, developed and possible of development at the state and local levels, to be assisted without excessive Federal regulation. Priority for these funds could perhaps be based upon the amount of funds contributed by a state or local agency from its own resources or some other measure of local efforts, thereby rewarding those which show a real interest in moving forward on meeting their

lower income housing needs. Such a priority, however, is only reasonably possible if direct funding is provided as outlined in No. 1, above.

3. The assistance made available under No. 1 should be flexible enough so as to permit all whose income does not exceed 80% of median to be assisted. This will allow for greater economic integration than is possible under the present 50% of median limitation and help avoid over-concentration of the very poor in individual projects. Aid given by state and local housing agencies with assistance under No. 2, above, should also be encouraged to be available to the same broad income spectrum.

4. Aid available under No. 1, and probably that under No. 2, should be able to be adjusted to meet increased operating costs as well as fluctuating tenant income levels. As experience with previous programs has demonstrated, this flexibility is essential to the long-term success of any assisted housing program. The ability to make these adjustments should also not be subject to the vagaries of the annual budget/ appropriations process.

5. The budget impact of these proposed housing programs should be calculated in a manner consistent with the way in which the budget impact of other long-term federal programs is calculated. Running out cost estimates for periods of twenty or forty years, and assuming, for example, that all tenants at all times during such a period would have zero incomes, presents a false impression as to what the true cost of the housing assistance with respect to any specific project might be. It is no more valid to make such a calculation than it is to include in the cost of acquiring a new federal office building its estimated operating cost over its anticipated life.

6. Effective tax incentives need to be restored for all types of lower income housing. (While helpful, the low-income housing tax credit is not sufficient in many instances to replace past tax incentives.) Otherwise, any new housing program, as well as existing programs, should be structured so as to reflect the need for sufficient other incentives to attract private investment. It needs to be recognized that a 6% return, in and of itself, is not sufficient under any foreseeable scenario and that direct program subsidies will need to be high enough to permit a return comparable to other investment opportunities.

7. Any new program should build upon and be integrated with the many existing Federal programs providing aid for the general housing market. This would include the FHA mortgage insurance programs and the secondary market supports provided by the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. This integration and reliance on known systems will help assure that the program becomes operational much more quickly than can be expected if a whole new delivery system is developed.

Part 2 - Preservation of Assisted Housing

1. Background --The preservation of federally assisted housing is one of the most important housing policy issues facing the Congress and the country today. The problem is a complex one. It concerns the imminent and long-term loss of federally assisted low and moderate income rental housing expected to occur principally as a result of three factors: (1) the prepayment of mortgages under the HUD §212(d)(3) and §236 programs and the FHA 515 program; (2) the termination or expiration of §8 subsidy contracts; and (3) the loss of assisted housing and public housing units due to deterioration resulting from age and inadequate maintenance or capital improvement of the stock.

Resolution of the problem necessarily involves the addition of new units of assisted housing, in order to maintain a meaningful national commitment to providing decent, safe and sanitary housing for low and moderate income households. It involves complex issues having to do with the rights of owners to pre-pay project mortgages in accordance with their original contracts. And it involves dealing with the potential dislocation or relocation of hundreds of thousands of tenants living in existing assisted housing units, many of whom may be unable to afford decent rental units in the private market.

The two issues affecting perhaps the greatest number of projects, and raising potentially the largest cost issues, are (1) the need for additional subsidies for projects where existing subsidy contracts are inadequate or will expire and (2) the need for maintenance or capital improvements for projects which lack sufficient project cash flow or reserves to maintain the projects in a decent, safe and sanitary condition.

2. Scope of the Problem -- The federally assisted housing stock totals 3.2 million units including 1.3 million public housing units. Few new units have been added since 1981[1]. Of the 1.9 million or more privately owned units, it is estimated that between 200,000 and 900,000 units may be lost from the inventory by 1995, as a result of prepayment or the expiration of existing subsidy contracts. By fiscal year 2005 the entire assisted housing inventory could be reduced by more than 50 percent.[2]

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[1] NHAB, "Low and Moderate Income Housing: Progress, Problems, and Prospects", 1985.

[2] GAO Testimony before the Subcommittee on Housing and Community Development of the House Committee on Banking, Finance and Urban Affairs, March 26, 1987.

It has been estimated that mortgages will be prepaid on projects containing perhaps 20% of the total assisted housing units in projects with mortgages eligible for prepayment. Whether some, or all, of these projects, or units, are converted to other uses is highly dependent upon local market conditions and other factors which may affect an owner's view of the value of the property.

In turn, there are several variables which affect the extent to which tenants may be displaced by project conversion. A principal variable is the capacity of in-place tenants to pay a market rent. Tenant income eligibility limits, for units developed under the §236 and 221(d)(3) programs, are generally higher than the income eligibility limits in, for example, the §8 program. As a result, some tenants in these projects may, in fact, be able to pay a higher rent than they currently pay, and thereby be less vulnerable to displacement as a result of project conversions.

Projects with expiring subsidy contracts will make up a major part of the preservation problem in the years 1994-2000. For the most part these are §8 projects where the 20-year contracts begin to expire in 1994.

Finally some number of projects are in need of capital grants or low interest rate loans in order to maintain their rental units in decent, safe and sanitary condition for low and moderate income households.

3. Need for New Production -- There is a growing need for additional assisted housing. Problems of an adequate, affordable housing supply exist across the country and are quite severe in certain areas. The dramatic problems of the homeless, and the apparent increase in homelessness, is, at least in part, a manifestation of this fact.

At the same time, some housing markets do have a substantial vacancy rate, especially at the higher rent levels. This fact should be taken into account in developing targetted programs for the construction or rehabilitation of housing for low and moderate income households. (See Part 1 - Production of Additional Assisted Housing)

4. Establishing a Framework--Principles & Objectives -- There are many questions to be asked, and information needed, in order to understand better the dimensions and the complexities of these issues. Basic data gathering should be done, and should, as much as possible, build upon the information base which HUD has already established. To a considerable extent, however, it is

possible, today, to set forth certain basic principles and strategies for dealing with the problem of preservation of the assisted housing stock. In fact, these principles and objectives should be clearly articulated at the ouset, so as to provide a common framework for a meaningful discussion of the various stragegies and approaches to the indicated preservation issues.

The following set of principles and objectives, we believe, respresents a well-balanced consideration of the concerns of the various interested parties and of the long-term housing needs of the low and moderate income households. They call for a clear and positive re-statement of the national commitment to housing and suggest appropriate roles for all levels of government, and the private sector (both profit and nonprofit), in the implementation of that commitment.

Principles and Objectives for the Preservation of Assisted Housing

- Assuring the availability of decent and affordable housing for low and moderate income households is an ongoing responsibility of our nation.
- To achieve this goal, the Federal Government, and state and local governments, must develop and implement appropriate policies and programs to support the production of new housing and the rehabilitaion of substandard housing.
- At the same time, the Federal Government has a responsibility to preserve, to the maximum extent possible, the existing stock of privately owned assisted and public housing.

In considering appropriate policies and incentives to address the problem of preservation of assisted units, the following objectives must be taken into consideration:

- Displacement of tenants who are unable to obtain or afford decent housing should be avoided; provision should be made for rental assistance or suitable replacement units which are both decent and affordable.

  In order to avoid temporary displacement of tenants, owners should be required to give prior notice to the Federal Government (HUD) of their intent to prepay, and HUD should take immediate action to avoid displacement.

- The rights of existing property owners to obtain a reasonable fair market value from their property should be maintained.

- To ensure the cost-effective use of our existing housing resources, rehabilitation and modernization funds should be made available for those privately owned assisted and public housing units which are in poor physical condition.

- Where project-based or tenant-based rental assistance or interest subsidy contracts are expiring, the Federal Government should provide for the renewal of such contracts at a level sufficient to maintain affordable rental units for those low and moderate income tenants who are unable to afford market rents.

- In the case of public housing, operating subsidies should be maintained at a level sufficient to ensure long-term maintenance and operation of the units for low-income residents.

5. Strategies for the Preservation of Assisted Housing -- Having established a framework of principles and objectives, it is easier to evaluate various strategies which may be proposed to preserve the existing stock of assisted housing. The following is a set of broad strategies or approaches which are consistent with these principles and objectives and respond to the various facets of the preservation problem.

(1) Reaffirm a National Commitment to Housing

- Development of a statement of national housing policy which will broadly define and reaffirm the Federal role in providing for the housing needs of low and moderate income households. This national housing policy statement should clearly recognize the need for housing production, as well as addressing other options for helping low and moderate income households meet their housing needs. At the same time, the policy should recognize the benefits of private and public sector partnerships to achieve national long-term housing goals.

- State and local governments should be encouraged to develop housing policy agendas for their citizens which will support and extend the Federal housing efforts.

(2) Protect Tenants from Displacement

- Various measures will be needed to minimize the level of tenant displacement or provide alternative housing opportunities which are both decent and affordable.
- To accomplish these ends, project owners should be required to give tenants a reasonable and timely notice of the owner's intent to prepay a project mortgage, whether or not a conversion of use is immediately expected to occur.
- HUD should be responsible for assisting in the relocation of tenants, where necessary, including providing relocation and rental assistance. It may also be appropriate to expect owners to provide some level of assistance in the actual physical relocation of tenants displaced by conversion.
- Project-based rental assistance subsidies should be authorized and funded by Congress to assist tenants to stay in place whenever possible.
- Where relocation is required and adequate housing stock exists in the local market, tenant-based rental assistance programs may be an appropriate response. Additional funding should be authorized by Congress for this purpose.

(3) Honor Contract Rights Possessed by Project Owners

- Owners should be permitted to prepay their mortgages without restrictions, other than reasonable and timely notice to tenants.
- A program of incentives, including tax benefits and/or direct subsidies, should be developed to induce owners to retain projects in the assisted housing inventory in exchange for extended use restrictions. Key areas for consideration are:

- additional rental assistance or capital improvement subsidies
- expanding the benefits of the low-income housing tax credit
- forgiveness of capital gains tax
- allowing owners to increase equity distributions through use of project cash flow or reserves

Where possible, these incentives should be generic, so they can be applied to a range of projects meeting certain broad criteria and the need for project-by-project review avoided.

(4) Prevent the Physical Deterioration and Loss of Assisted Housing Units

- o Capital improvement grants or low interest loans should be authorized and funded by Congress. Projects receiving these benefits should be subject to extended use restrictions.
- o HUD should authorize the use of excess project reserve funds to meet physical improvement needs.
- o Where necessary to fund needed improvements, secondary financing should be allowed.

(5) Extend Expiring Subsidy Contracts and Address the Need for Additional Rental Assistance or Operating Subsidies

- o Congress should appropriate additional funds to extend expiring subsidy contracts for at least an additional 10 years, in exchange for a comparable extension of use restrictions.
- o Unused or recaptured budget authority should also be used for this purpose.

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A SUGGESTED FRAMEWORK
FOR
NATIONAL HOUSING PROGRAMS

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I. INTRODUCTION

In response to the invitation from Senators Cranston and D'Amato, the National Housing Law Project is submitting this paper suggesting components for a renewed and effective national housing policy.

The National Housing Law Project was established in 1968 to serve as a resource on housing issues for attorneys representing low-income people nationwide. We are funded primarily by the federal Legal Services Corporation and also by various foundations and California's Interest on Lawyers' Trust Accounts Program. Our primary responsibility is to work closely with the lawyers in over 300 different Legal Services programs around the country who on a daily basis represent poor people with problems related to housing and community development. During the past ten years, we have taken on two major additional projects. The first was our Multifamily Demonstration Program designed to analyze the management and financial difficulties which HUD subsidized privately owned projects had begun to encounter in the mid-1970s. The second was to provide legal representation to nonprofit housing sponsors who were considering whether to syndicate their projects. Finally, from time to time, we undertake special research projects in the housing and community development area with funding from foundations and other sources. In the past ten years, those projects, for example, have included research and publications on the problem of displacement and how to reduce it, the preservation of single-room occupancy residential hotels, legal restraints upon public housing authorities' tenant selection decisions and the rights of poor people to combat racial discrimination in the housing.

The ideas presented in this paper are derived primarily from the experience which we have gained over the last 20 years in carrying out the activities described above. The most valuable part of the insights we have gained come from our daily contact with attorneys who are directly representing poor people living in both subsidized and unsubsidized housing. That contact provides extremely valuable knowledge about the way the various housing programs have operated, in fact, not in theory. At the same time, we have been able to broaden our perspective beyond merely the tenants' and homebuyers' interests through our representation of nonprofit housing sponsors as well as our communications with other housing developers, both public and private. It is on the basis of this knowledge that we present the views expressed in this paper.

We address first the question who should be served by national housing programs. Our view is that Congress correctly answered that question in 1949. Every family should be entitled to decent, safe and sanitary housing in a suitable living environment. There should be universal entitlement to housing subsidies for everyone who is not able to afford decent housing private market. That goal has not yet been achieved and realistically will not be achieved in the immediate future. Thus, as we move towards its accomplishment, first preference must be given to those people who have the greatest need, i.e., those with the lowest incomes, those who encounter the greatest barriers in the private housing market, i.e., victims of racial and other discrimination, single-parent households and mentally and physically handicapped individuals, and those who are homeless, who are threatened with involuntary displacement or who reside now in substandard housing.

Second, there is the question of how much should residents pay for their housing. On that point, any sound housing program must include sufficient subsidies to ensure that the residents pay no more than they are realistically able to pay. Ideally, that would be only the money, if any, remaining for housing after the family has met all its other needs. If, on the other hand, the residents' payments are to be set as a portion of their incomes, the percentage payable must be lower than the current 30-percent standard. The percentage must be fair when compared to the portion of income paid for housing by higher-income families and should be lower for the lowest-income families. There must also be adjustments to the income which will sufficiently reflect the particular family's true financial circumstances.

After addressing the questions who should be served and how much they should pay, our next focus is on the use of already existing rental housing which is owned by private landlords. There are strong reasons to use the existing rental housing market as a source of some of the subsidized housing for poor people, primarily because of the speed with which that housing can be made available. However, certain myths about relying upon the existing private housing market must be exposed for what they are. First, it is not cheaper to utilize housing on the existing rental market, at least not in the long term. Second, abuses by the owners and managers of rental housing, such as racial discrimination and inadequate maintenance, are more pervasive on the private market than with public or privately owned subsidized projects. Third, in practice, even if not in theory, use of the existing private rental housing market has not significantly widened the choice of neighborhoods in which poor people can reside. Thus, although some federal resources should be directed toward programs which utilize the private market, the balance must be shifted much more heavily in the future than it has in the past ten years to programs involving project-based housing subsidies.

That raises the next question, i.e., who should develop, own and manage such projects. Despite all the myths to the contrary, conventional public housing is still the most successful housing program for poor people ever undertaken by this country. It must be a central component of any future housing policy. Similarly, nonprofit housing sponsors must be recognized, along with the local housing authorities, as those with the most significant roles to play in future housing programs. Third, regardless of the form of ownership, fairness dictates that there be an increase in the role of tenant management corporations. Finally, much greater caution than has ever been exhibited in the past must be used in designing any housing programs which utilize for-profit, private ownership.

Next the focus shifts to the structure of the subsidies. The subsidies must be sufficient to ensure that the residents pay only what they can afford, not arbitrary minimum rents or payments unrelated to their individual financial circumstances. Subsidies designed only to reduce interest payments or cover capital cost, without considering operating expenses, must be replaced with deep subsidies for past programs and must be avoided in designing any new programs. For certain reasons, primarily related to the federal budgetary process, it might be desirable to separate capital subsidies from operating subsidies. However, if that is done, special care must be taken to ensure that no units are subsidized on a capital basis only and, thus, remain unavailable to poor people at costs they can afford. Finally, indirect, income tax-based subsidies must be abandoned because they are both inadequate and ineffective. Similarly, Congress must accelerate the trend to substitute capital grants for long-term financing as is now being done with the public housing program.

The following question is how long should the government be committed to subsidize any particular project. The commitment from the government should be to subsidize the project as long as it is needed and it meets the need effectively. The problem of expiring federal government commitments to particular housing projects began to emerge in the late 1970s when some of the original 40-year annual contributions contracts expired. Soon thereafter, the Farmers Home Administration's appropriations for five-year rural rent supplement contracts began to expire. Now we are entering the era in which the 20-, 15- and 5-year appropriations for the Section 8 and Voucher Programs will begin to expire. From this experience, there arises the need to ensure not only that those commitments will be renewed, but also that their renewal will not be counted against the efforts to expand the number of individuals benefiting from housing subsidies until all who are in need are served.

An analogous question is how long should an owner of a subsidized housing project be committed to use it for low-income people. As with the government, the landlord's commitment should be to use a project as subsidized housing as long as there is a need and the project can effectively meet that need. The attention which has recently been focused upon the expiring commitments made by private landlords in the various FmHA and HUD subsidized housing programs demonstrates both the need to extend the commitments of those landlords and to design new programs to avoid those problems in the future.

The final two questions are interrelated. The first focuses upon the rights of the tenants and homebuyers. Nearly every time Congress has created a new housing program in the last 25 years, program beneficiaries have had to spend the following five years establishing and clarifying what their rights are. Examples include the right not to be evicted without cause, the right to notice and a fair opportunity to object when subsidies are terminated and the right to be fairly treated in the tenant selection process. If new housing programs are to be created, it will be extremely important for Congress to make it clear at the time of their creation that the beneficiaries of the programs have specific rights to be treated fairly on all these matters.

The related question is which agencies and which private parties should have the responsibility and the power to enforce the rights of the program beneficiaries. In this regard, it is necessary to confer implementation and enforcement power upon agencies which have housing expertise and knowledge, such as HUD and the Farmers Home Administration, and not the Internal Revenue Service. Second, it is important to provide the housing agencies, federal and state and local, with adequate resources to effectively monitor and enforce the obligations of participating landlords. Most important, program beneficiaries must be authorized to take private enforcement action both in the courts and at the administrative agencies, when the federal rules have been violated and their interest adversely affected.

II. WHO SHOULD BE SERVED?

Federal housing policy should seek to serve all individuals who cannot afford decent housing on their own on the private market. Housing ought to be an entitlement program, like food stamps or Medicaid, available to all who need it, because decent housing often determines a family's access to education, employment, and a healthy daily living environment.

If the federal government is unwilling to assign housing the priority it deserves and refuses to serve all the needy, then any more modest efforts must be directed toward housing the neediest and poorest people first. Existing housing policy does precisely the opposite. Off-budget tax subsidies for homeownership predominately benefit middle- and upper-income taxpayers, dwarfing the direct budget outlays for low-income housing. Furthermore, presently those few resources that are devoted to low-income housing have not been properly targeted toward serving the poorest people first. Rather, in the past, eligibility for the federal programs has usually been set at 80 percent of area median income. That income limit permits public housing authorities (PHAs) and private landlords to select applicants who are considerably better off financially than many of the needier people who also seeking assistance, even though they may still be unable to obtain affordable decent housing on the private market. Recognizing this, Congress, in 1981, enacted Section 16 of the United States Housing Act, reserving specified percentages of federal housing units for needier families, i.e., those "very low-income" families with incomes below 50 percent of area median. (This "very low-income" standard still far exceeds the poverty level in most areas.) Congress relented somewhat from this commitment in 1983 when it reduced the percentage reserved for very low-income families, thus permitting more units to house families with higher incomes. Thus, it is not uncommon for families with extremely low incomes to languish interminably on waiting lists while families with higher incomes get served first.

Until the federal housing programs reach an entitlement status, those most in need should be served first. This could be accomplished by setting a low eligibility threshold, such as 30 percent of area median income. Alternatively, eligibility could be established even lower, at families with incomes at the AFDC, SSI or food stamp levels. Applicants who fit this definition should be selected first-come, first-served, with no preference given for higher incomes within the eligibility limits. Even though it might seem more attractive to help those with the lowest income first, introducing that kind of priority system would be administratively difficult and would violate traditional notions of fairness. On balance, it would be better housing policy to establish the income eligibility threshold low enough to include those most in need and provide assistance to applicants in chronological order without further attempts at preferences.

Aside from income considerations, housing policy must also serve those whose needs are not as easily met by the private market. If housing is an entitlement program, then special consideration for those eligible who also face discrimination becomes less necessary. However, until then, special consideration should be made for groups that have special housing needs, such as families with minor children, disabled or handicapped individuals, elderly people, non-white families, single-parent families, displaced or homeless people. Because the private market will often not adequately house these people, federal policy must rely primarily on project-based subsidies to provide their housing. To the extent possible, housing for these groups should be integrated with that made available to other eligible families.

III. HOW MUCH SHOULD THE RESIDENTS PAY?

Housing policy should set charges for low-income residents, who are by definition unable to afford housing on the private market, on the basis of their ability to pay. Ideally, this should be a standard developed based upon each family's particular circumstances, seeking to charge for housing whatever is left after other necessary and legitimate expenses have been met. Alternatively, rents should be charged as a specific percentage of adjusted income. This percentage should be similar to that which other income groups pay for their housing (certainly less than 30 percent) and the adjustments to the income base should provide allowances for certain basic living expenses such as medical expenses and childcare.

Past experience has conclusively demonstrated that poor people cannot afford the full cost of providing decent housing. Even assuming a conservative $40,000 PUM capital cost, 10-percent interest rate, and $200 PUM operating costs, the break-even rent level would be $550 per month, "affordable" only to a family with an annual income of $22,000. A federal housing subsidy system is essential to provide housing for very low-income people.

Furthermore, experience under the Section 221(d)(3) BMIR and Section 236 programs has demonstrated that shallow subsidies cannot provide affordable housing for the poor. Poor people cannot realistically be charged a "basic rent," one which covers the capital and operating costs for the project, reflecting only a shallow federal subsidy to cover interest on the capital costs. A rent established at this amount will inevitably result in the neediest people paying more than half of their income for rent, leaving little for other necessities of life, producing nonpayment-of-rent problems and increased mortgage defaults. Finally, experience has also demonstrated that even if the capital costs are fully paid, poor people cannot afford even the operating costs for their units, usually around $200 per unit per month. In recognition of this, Congress in 1969 shifted the public housing program from an operating cost rent system to a rent system based upon ability to pay. This type of rent system is essential for a housing policy to serve the very low-income.

This rent must cover not just the physical housing structure, but also must cover other essential housing services such as maintenance, management, replacement reserves, and a reasonable quantity of utilities to provide a safe and healthful living environment. If residents pay for their own utilities directly, a reasonable utility allowance must be provided. Over the past decade, HUD has deliberately tried to subvert the percentage-of-income system by short-changing tenants on adequate utility allowances. The utility allowance must ensure that only those whose usage is truly wasteful are surcharged.

In a system based on need, it is illogical to simultaneously charge tenants a minimum rent that is unrelated to income or ability to pay, yet that is precisely what the current public housing and Section 8 statute does in charging a minimum of 10 percent of gross income.

Only through a payment system based on need -- one which provides subsidies for the difference between what residents can afford and what it costs to provide decent housing -- can housing be made truly affordable and decent.

IV. WHAT USE SHOULD BE MADE OF EXISTING RENTAL HOUSING OWNED BY PRIVATE LANDLORDS?

The efforts of the federal government to provide housing for poor people focused initially upon ownership by public entities of buildings specifically constructed and subsidized to house people with lower incomes. Subsequently the effort expanded, in 1959 with the Section 202 Program and in 1961 with the Section 221(d)(3) BMIR Program, to privately owned projects which were still developed specifically as subsidized housing. That effort to tie the subsidies to specific projects continued on with the Rent Supplement Program, added in 1965, the Section 236 Program, added in 1968 and certain portions of the Section 8 Program created in 1974.

At present, with the exception of a very limited number of units under the Section 202 Program, the Section 8 Moderate Rehabilitation Program, the conventional public housing program and FmHA's Section 515 Program, the federal government has abandoned its efforts to make housing available to poor people by subsidizing specific projects. Instead, to the extent that there is any activity on the federal level, the emphasis now, is upon portable subsidy programs, such as the Section 8 Certificate Program and the Voucher Program which rely upon the private owners of already existing rental housing to house low-income people. There are certain advantages with programs of this nature. In contrast with new construction programs, it is possible to make the federally appropriated housing subsidies available to families who need them much more quickly, i.e., within one year of their appropriation instead of the three- to four-year pipeline for the other programs. The private housing market programs runs into much less neighborhood opposition than a program such as Section 8 New Construction. There is sufficient anonymity preserved for the tenants participating in the Section 8 Existing Housing or Voucher Programs to eliminate most of the stigma which may be attached to participants of some of the other project-based subsidized housing programs. Nonetheless, in deciding what use should be made of the existing rental housing market and how to balance that use against project-based subsidies, certain realities must be recognized and myths dispelled.

Notwithstanding the political rhetoric to the contrary, it is not cheaper over the long run to rely upon the existing private housing market to provide subsidized housing for poor people. It is true that in the first year the amount of subsidy spent per family under either the Voucher or the Section 8 Existing Housing Program is less than the amount spent in the first year of a conventional public housing project or a Section 8 New Construction Project. However, that savings does not last for long and vanishes surprisingly quickly. For example, we encountered a situation in California where the rents for a six-year-old Section 8 New Construction project turned out to be less than the fair market rent under the Section 8 Existing Housing Program. The same phenomenon is occurring with Section 8 Additional Assistance projects in which the rents allowed by HUD are less than the Section 8 Existing fair market rents for the area. Even the 1981-82 President's Commission on Housing found that the cost of the average public housing unit including operating subsidies was less than the cost for any other program.

The reason this occurs is that the rents being demanded by landlords on the private market reflect both the maximum that the market will bear and a return on the owner's equity measured in terms of the current value of the property, not the original investment. In contrast, under many of the project-based subsidy programs, the owners are entitled to charge only sufficient rent to cover their financing and operating costs, with a fair return, if any, on their original investment, not the current value of their properties. Even in times of moderate inflation of real estate values, the cost of subsidizing housing on the existing private market quickly outpaces the cost of subsidizing housing in which the rents are controlled and the return to the owner, if any, is measured in terms of original investment.

It is also necessary to recognize that the private rental housing market is not paradise. More importantly, there are fewer angels and more devils among private landlords than there are among the owners and managers of conventional public housing projects, nonprofit housing projects and even privately owned subsidized housing projects. Thus, discrimination on the grounds of race and ethnic backgrounds still pervades most of the private residential housing markets in this country. Single-parent

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households, families with children, large families and physically and mentally handicapped individuals also regularly encounter discriminatory treatment in the private housing market. Inadequate maintenance, at least in the segment of the market which serves poor people, is the norm, not the exception. As our experience with the Section 8 Existing Housing Program demonstrates, private landlords are all too often ready to gouge the low-income tenants by extracting additional charges under the table because they know that the tenants will pay more than 30 percent of their adjusted incomes. The early returns on the Voucher Program indicate that such gouging by the landlords will be even worse with that program.

The significance of these realities about the private low-income rental housing market is: (1) that certain families will not be served, because of the discrimination they encounter; (2) that certain families will be housed only in substandard, poorly maintained housing because the private landlords will be able to get away with it; and (3) that certain families will be charged much more than they should have to pay, again because the landlords will be able to get away with doing so. It is, thus, very important not to put all the resources into programs which rely upon the existing private housing market because too many individuals will not be served and too many more will be abused.

Another myth about the existing housing market programs is that they provide the participants a wider choice of the neighborhoods in which to live. Theoretically, it would seem that a certificate or voucher program would expand that individual's opportunity to live in more desirable neighborhoods. However, in practice, that has not proven to be the case, for a number of reasons. First, because of the heavy pressures to reduce costs as low as possible, in most cities the fair market rents for Section 8 Existing Housing are so low that only housing in the poor neighborhoods qualifies. Second, with the Voucher Program, the tenants could move to more expensive neighborhoods because they are not limited by the fair market rent caps. However, to do so, they have to pay significantly more of their own incomes for housing than 30 percent. Even where the fair market rents are not a problem, program participants still encounter strong resistance from private landlords who own higher-rent buildings in better neighborhoods. Finally, because of the structure of both the Section 8 Existing Housing Program and the Voucher Program, any local government which does not wish to have Section 8 Existing Housing Certificate holders or Vouchers participants living within its jurisdiction has the power to keep them out. Both programs rely upon local housing authorities for administration. Few housing authorities have the power to operate in towns and cities which do not consent to their presence. Thus, in reality, programs which rely upon the existing housing market do not significantly alter the choices of neighborhood which are available to the program beneficiaries.

In the debate between project-based subsidy programs and private housing market programs, much attention has been given to the housing markets in which the supply of housing is so tight that a project-based, new construction or substantial rehabilitation-type program is necessary. We recognize, and indeed strongly advocate, that project-based programs be utilized in such tight housing markets. However, those are not the only situations in which it is necessary to provide an alternative to portable subsidy programs. When one dispels the myths about the greater choices and the lesser cost of the existing private market programs and considers the abuses which exist in the private rental housing market, one should see quickly that alternative project-based programs must be made available everywhere. The trend since 1979, away from the project-based programs, must now be reversed and a more adequate balance be struck.

At this state one cannot avoid commenting upon the debate which has raged since 1981 about the value of vouchers versus Section 8 Existing Housing Certificates. The vouchers now being offered under the demonstration program are sufficiently far from the original notion proposed in 1981, that the debate has in some ways become more about terminology than substance. However, there remain three important differences between the Voucher Program and the Section 8 Existing Housing Program which must be recognized. First, because landlords under the Voucher Program will be entitled to charge whatever they wish and tenants are provided no protections against gouging, there is no doubt that Voucher participants will pay more for their housing than participants in the Section 8 Existing Housing Program. They will be paying more not because the housing is better, but because the landlords are allowed to charge more. Second, under the Voucher Program, the housing authorities are not allowed to increase the subsidies annually to offset increased rents charged by the landlords as they are under the Section 8 Existing Housing Program. Instead, they can make such increases at most only twice in five years. That, again, makes the Voucher Program less desirable than the Section 8 Existing Housing Program. Finally, the commitment by the government to the Voucher Program is only for five years instead of fifteen years as, at least in the past, it has been for the Section 8 Existing Housing Program. For these reasons, there remain significant reasons to prefer the Section 8 Existing Housing Program to the Voucher Program in any future housing policy.

V. WHAT TYPES OF ENTITIES SHOULD DEVELOP, OWN AND MANAGE PROJECT-BASED SUBSIDIZED HOUSING?

The discussion above demonstrates that it is crucial for the federal government to dedicate a much larger portion of its housing subsidies to project-based subsidy programs for low-income people. The next question is which entities -- public housing authorities, nonprofit housing sponsors, tenant management and ownership corporations, or for-profit private landlords -- should develop, own and manage such housing. Conventional public housing, owned by public housing authorities, should be the cornerstone of the federal efforts. Much more emphasis than in the past should be placed upon the nonprofit housing sponsor sector. There is room with both of these types of ownership entities for tenant management and tenant ownership programs if they are carefully designed and adequately funded. Finally, the for-profit private landlords should be given a much smaller share than they have been in the past.

A. Public Housing Authorities

There are several reasons why conventional public housing deserves a greater emphasis than it is currently receiving. The conventional public housing program is the housing program which does the best job in housing poor people. It is the largest of the various project-based housing subsidy programs, with approximately 1.3 million units now under management. When surveyed, the majority of public housing residents have indicated their satisfaction with their housing. The long waiting lists for public housing demonstrate its desirability. More than any of the other programs, public housing serves people with the lowest incomes and the people who encounter the most severe problems of discrimination on the private market. The vast majority of the public housing projects do not conform to the negative, media stereotype of old high-rise projects which are poorly maintained and virtually uninhabitable. Instead, they are low-rise, garden-style or single-family homes in projects which average less than 100 units per project and are less than 25 years old. We cannot ignore the success of this program in deciding how to direct future housing efforts.

The conventional public housing program is also the least costly of the various attempts to provide housing for poor people. Because the projects are owned and managed by public entities, there is no need to build in a return on equity for the owners or a profit component for the development and management activities. More importantly, over time, the revenue demanded for the housing does not escalate as rapidly as with private housing because the rents charged are not set by supply and demand and do not have to reflect an inflated return upon the current value of the property. Because the public housing projects are be dedicated as low-income housing forever, there is no need to compensate the owners of the property over and over again for its use as there is in the private sector. In deciding how to direct future federal efforts, we must recognize what the President's Housing Commission recognized in 1982, namely, that public housing is the cheapest way to provide housing for poor people.

Because the individuals who develop, own and manage conventional public housing are government officials, they are more accountable to the public and to the tenants than private landlords. This increased accountability arises both for legal and practical reasons. The public housing authorities are more clearly subject to constitutional limitations which are designed to protect the interests of the tenants and the public. Legislative bodies, including Congress, are more willing to impose restrictions upon public officials than upon private landlords. This propensity shows up particularly strongly in those situations where the passage of time requires the development of new laws to regulate landlords participating in the federal housing programs. The Congress and the federal agencies are much more willing to impose those changes upon public entities such as housing authorities than upon private landlords already participating in the subsidy programs. On a practical level, public housing officials are more accountable because of society's greater willingness to scrutinize the actions of public officials, the willingness of local government entities to intervene and the responsiveness of public officials to the interests of tenants and the public, instead of narrower financial interests.

This difference in accountability shows up most dramatically in the characteristics of the tenants who are housed in the public housing program. The income levels of public housing tenants tend to be at the lowest of all the federal programs. In part, that is because the poorest people encounter much less discrimination in the public housing tenant selection process. Public housing authorities also generally serve a much larger portion of black and other nonwhite tenants than is true with the subsidized private landlords. Again, that is a product of less discriminatory attitudes on the part of public housing officials than those who own and manage private, subsidized projects. Even in the treatment of tenants, there is less arbitrary and capricious conduct demonstrated by the public housing officials than by the owners of the privately subsidized projects. For these reasons, conventional public housing must be restored to its central role in the federal policies for housing low-income people.

A related point is that, if a new program is created as a supplement to the conventional public housing program, public housing authorities should be given the opportunity to participate in that program as much as nonprofits. Thus, for example, if Congress were to create a capital grant program for housing development or acquisition, with an attached operating subsidy component, public housing authorities should be authorized along with others to participate, even though the program is not labeled conventional public housing. Certainly PHA's experience with FmHA's program and some of the state programs demonstrates that they can successfully operate more than conventional public housing.

B. Nonprofits

For many of the same reasons, nonprofit housing sponsors should be given a much greater role to play in the development, ownership and management of federally subsidized housing projects than they previously have been given. The cost of providing housing through nonprofits is less. As with the public housing, there is no need to factor in a return on equity, much less a return on the inflated equity as occurs with the private for-profit projects. There are also fewer hidden costs in the management and operation of nonprofit projects. One of the significant problems with for-profit subsidized projects is that the owners often establish companies for management and the provision of services, equipment and supplies. Those related entities in turn charge the project inflated prices that become the basis for future rent increases. Practices like that show up much less with nonprofit projects. As with public projects, there is also less need to be concerned about the costs of retaining the project for housing use over the long term and having to pay for that use time and time again. Nonetheless, the experience with the loss of nonprofit Section 221(d)(3) and Section 236 projects when they were sold to for-profit owners in the late 1970s and early 1980s demonstrates the care that must be given to ensuring that projects developed by nonprofits stay in nonprofit ownership over the long term.

Over the years we have encountered less problems from the nonprofit sector than from the for-profit sector in the manner in which tenants are treated. On issues such as tenant selection, fair leases, grievance procedures, and evictions, we have found that the nonprofits are more likely to treat the applicants and tenants fairly than the for-profits. That is a product primarily of the responsiveness of the nonprofit sector to the interests of the tenants and their greater accountability to the tenants.

We also believe that the nonprofit sectors have sufficient capacity to play a much more significant role. In the past, that capacity has, of course, been demonstrated most effectively with the elderly housing programs, such as the Section 202 Program. But they are still significantly involved in the other private project-based subsidy programs, such as Section 236, Section 515 and, to some extent, with the Section 8 Program. We recognize that there was some negative experience with nonprofits under the Section 236 and Section 221(d)(3) BMIR Program, but we believe that most of that negative experience was traceable to the inadequacy of the subsidies designed for those programs.

C. Tenant Management Corporations and Tenant Ownership

Beyond the economic benefits, one of the reasons that ownership of one's home is so much a part of the American dream is that ownership gives the family so much more control of their living environment. Fairness dictates that tenants who live in subsidized housing also be accorded as much control over their homes as is possible. For that reason alone, tenant management corporations and some tenant ownership schemes should be emphasized much more in the federal housing programs than they have been to date. Beyond fairness, tenant ownership and management corporations can succeed because the tenants are most affected by day-to-day management decisions and, thus, have the strongest interest in ensuring that those decisions are correctly made and fully carried out. Because the tenant managers are not outsiders and are less likely to be viewed as such, they also have an advantage in controlling negative activities of some tenants and promoting positive contributions from all tenants.

Any tenant management or ownership scheme, however, has to be adequately subsidized. There must be sufficient money to adequately rehabilitate and maintain the buildings. The subsidies must be deep enough to keep the rent or homeownership payments at levels which are affordable by poor people. There must be protections against exclusion of those with the lowest incomes from a tenant-managed or a tenant-owned projects. Those who have responsibilities for management and ownership must also be adequately trained to perform their functions. As with any other landlord-tenant relationship, there is still a need for protections for the residents, including nondiscrimination requirements, grievance procedures for management-resident disputes and procedural and substantive protections regarding evictions. The units must be restricted to low-income use in perpetuity.

D. For-Profit Ownership

Many of the reasons for favoring public and nonprofit ownership demonstrate why for-profit landlords should be given a much smaller role in future federal housing efforts. Using for-profit landlords is a more expensive proposition, in part because of the need to allow for the profit motive up front, but most significantly, for the long-term cost of having to replace subsidized units which are removed from the market by their private profit-motivated owners. Private owners and managers are also less accountable to the public and to the tenants than the nonprofit owners and public officials. In the past, the private for-profit programs have, unfortunately, structured the returns for the developers and owners in a fashion which emphasizes their short-term interest and sacrifices the long-term public and tenant interest in well-built and well-maintained housing. A major part of the problem has been the reliance upon the tax code as a mechanism for producing additional returns to the developers and syndicators very early in the life of the project, thereby lessening their need to build high-quality projects and maintain them well. For these reasons, and others as well, it is better to put a much higher priority upon the role of PHAs and nonprofit sponsors than private developers.

If any role is to be retained for for-profit private developers and owners, much greater care must be taken in designing the owners' responsibilities and the limits upon their rights. Most obvious is the need to ensure that any privately subsidized project is dedicated to providing subsidized housing in perpetuity. That will guard against the repetition of the critical loss of units problem we are facing today. Second, the return to the private owners must be designed to ensure that their long-term financial interest is also consistent with high-quality construction and long-term maintenance of the housing. Again, because they are less accountable, it is necessary to develop stronger enforcement mechanisms on issues such as tenant selection, arbitrary treatment of residents, grievance procedures and evictions. Finally, if the federal government will have less resources primarily because of the huge federal deficit, there is less need to involve private for-profit landlords. The PHAs and nonprofits may very well have the capacity to do whatever the federal government has the capacity to fund.

VI. HOW SHOULD THE SUBSIDIES BE STRUCTURED?

A. Full, Not Limited, Subsidies

The most important lesson we have learned from the history of the federal housing programs is that the subsidies provided must fully cover the gap between the cost of housing and the amount the residents can afford to pay. The original public housing subsidy was structured to cover only the capital cost of development. As a result, the public housing program began to run into financial difficulties in the 1960s when the rents the tenants could afford could not keep pace with the cost of operating the projects. Similarly, much of the financial difficulty encountered by Section 221(d)(3) BMIR and Section 236 projects in the 1960s and the early 1970s can be traced to the inadequate subsidies which covered only a portion of the financing costs, not even the complete capital costs. These mistakes are being made again in the 1980s with programs like Rental Rehabilitation, Housing Development Action Grants, HUD's Public Housing Homeownership Demonstration and the new tax credit which provide only limited subsidies and place upon the residents the burden of coming up with the rest of the money.

When limited subsidies are provided, a number of adverse consequences occur. First, a large portion of the housing never serves poor people. Instead, poor people never chose to move in or owners deliberately choose to exclude them because they cannot afford the minimum rents which are necessary, given the limited subsidies. Second, in those projects which do rent to poor people, the poor tenants are forced to pay exorbitant portions of their incomes for rent. Third, many of the projects run into financial difficulties, mortgage defaults and poor maintenance and management because the rents that can be collected and the limited subsidies are not sufficient to operate the projects well. For these reasons any new federal housing efforts must include a deep enough subsidy to both serve poor people and avoid mortgage defaults and poor maintenance.

From time to time suggestions are made for splitting the subsidies into two parts. The first would be capital subsidies designed to promote the construction, rehabilitation or acquisition of housing, sometimes with low-income people in mind. The second would be operating subsidies, usually tenant based, which are designed to reduce the cost to the tenant down to an affordable level. One major incentive for such suggestions is the difficulty encountered near the end of the Section 8 New Construction Program in convincing anyone to make the long-term commitment to what appeared to be very high per unit per month subsidies. Analogies are also drawn to earlier programs in which similar splits were made, e.g., the public housing program which has both its capital subsidies and its operating subsidies, and the use of Rent Supplements in a portion of the Section 236 projects in order to make those units more affordable.

With one limitation which is discussed below, there are good reasons to split the subsidies. They primarily relate to the federal government's budgetary process. If, as is suggested below, the capital costs are covered by grants instead of long-term subsidized financing, the budget authority charged to the housing accounts for those capital grants would be less than the

the budget authority necessary for subsidizing a comparable amount of long-term financing. There would be no need to account for the interest portion of that subsidy because no interest would be paid out of the housing account. Second, the operating subsidy could be for a shorter term than it was under the Section 8 programs, because without long-term financing, there is less need for a long-term guaranteed subsidy stream. If the operating subsidy were structured for a shorter term, then the budget authority accompanying that subsidy would also be much less. For these reasons, it may make sense to structure the subsidies as two parts rather than as a single subsidy as was done under the Section 8 Program.

Nonetheless, it is vitally important not to separate the subsidies so much that any particular project could end up with a capital subsidy but not an operating subsidy. That split is occurring with the HODAG Program and the Rental Rehabilitation Program. It produces the same unfortunate consequences as the earlier programs, like the Section 236 Program which involved only limited subsidies. Those consequences are that the federal money is invested in the development or rehabilitation of a particular project allegedly for low-income people, but in the end, because the subsidies are too limited, only moderate and middle-income people get to reside in the buildings. Thus, if any scheme is developed to subdivide the federal subsidies into two component parts, one for capital and one for operating costs, they must always be linked together in the same projects. In addition, the owners must still be obliged to serve poor people for as long as the housing is needed and their projects can effectively meet the need. An obligation must be imposed upon them to accept tenant-based operating subsidies on behalf of all the tenants in their buildings for as long as the federal government or state or local governments make such subsidies available.

B. Capital Grants Instead of Long-Term Financing

It is also important to shift now from a system of subsidizing long-term financing to one of capital grants. Historically, the housing programs have focused upon long-term financing, not capital grants. The original conventional public housing scheme was for local housing authorities to issue long-term, usually 40-year, bonds, with the federal government agreeing to annually contribute whatever money the housing authority needed to make the premium payments on the bonds. That scheme spread the costs out over a long period of time instead of loading them all up in the first year or two. When the federal government began to move into private sector programs, with the Section 202 Program in 1959 and the Section 221(d)(3) BMIR Program in 1961, the tendency was still to use long-term financing, albeit direct or quasi-direct loans, in order to spread costs over a longer period of time. In 1968, when the budgetary impact of these direct and quasi-direct loans began to make first year costs of the subsidized housing programs appear monumental, the Congress shifted to the interest reduction payments scheme of the Section 236 Program.

In the public housing program, there has recently been a shift to a capital grant approach. The seeds for that approach began in the mid 1970s when housing authorities stopped issuing long-term bonds and HUD began financing the development and modernization of public housing with short-term Treasury notes which provided funds for HUD to lend to the housing authorities. When changes in the Income Tax Act in the 1980s left the tax-free quality of those notes in question, HUD and eventually Congress began to shift to a capital grant approach under which appropriated funds are granted by HUD to housing authorities for modernization and development.

In the long run a capital grant approach is less costly than a long-term financing approach, at least to the housing accounts. With the capital grant approach, there is no interest cost to be subsidized out of the housing appropriations. For example, in the past, nearly half of the budget authority authorized for public housing modernization went to cover interest costs on 20-year financing, not the capital cost of the modernization improvements. The same is true with long-term financing for development or acquisition. As long as this nation remains in debt, it is theoretically true that making capital grants for housing programs does create an interest cost for the federal government. That interest is paid by the United States Treasury on monies borrowed to make the grants or federal debt not paid because the grants are made. However, the housing programs do not get charged for that interest in the accounting, just as the CDBG Program does not get charged for the interest from the federal debt that results because block grants are made to the local governments.

A long-term financing scheme creates other costs beyond interest as well. These costs are primarily associated with the role of the various middlemen who raise and provide the financing -- the bankers, the mortgage brokers, the lawyers, the secondary market people, the securities brokers and the mortgage insurers. The costs are not only merely the cost of providing income to those individuals, but also the cost of accommodating their interests, which often conflict with those of the public and the residents of the housing. For example, in part the loss of privately subsidized units problem we are encountering today arises from the activities of mortgage lenders acquiring mortgages on subsidized projects with the intent of encouraging or at least taking advantage of the prepayment of those mortgages by the subsidized private landlords.

In terms of the federal budget process as well, there is an advantage in using capital grants. Ever since 1974, when the Budget and Impoundment Control Act was adopted, the long-term costs of all commitments authorized by appropriations acts must be expressed as budget authority. With that requirement there is less of an advantage to use long-term financing because the cost of that financing must still be declared up front at the time of the appropriation as budget authority. Indeed, the opposite is the case. With long-term subsidized financing, the budget authority must cover both principal and interest, but with capital grants, the budget authority covers only the actual cost of development or rehabilitation. In addition, since capital grants avoid the necessity of a guaranteed long-term stream of subsidized rental income, the budget authority for subsidies to cover the operating costs need not be run out over as many years.

If the federal housing programs shift to a scheme of capital grants, however, it will be necessary to guarantee long-term use of the projects built with the grants for low-income housing. In the past, unfortunately, the use restrictions have tended to be structured as part of the long-term financing and as being coterminus with that financing. There is no reason, legal or otherwise, which would prevent the imposition of long-term use restrictions even though long-term financing is not provided. With the new public housing grants there is still language committing the housing authorities to use the projects for low-income housing even though they are not receiving annual contributions for capital costs. It is important, however, that the restrictions be imposed and that they extend as long as there is a need for the projects and the projects can meet the needs effectively. In addition, a repayment obligation should be imposed so that the inflated value created by the original grants will come back to the federal government should the property later be used for other purposes.

C. Avoid Limited Capital Subsidies

The discussion above indicates the undesirability of subsidies that are limited to capital costs or only a portion of the capital costs. Low-interest direct loans, the interest reduction payment schemes and tax-exempt bonds are examples of such past and present subsidies. The federal government must recognize that such schemes, by themselves, do not provide housing that is affordable by poor people. Because of the greater sophistication in the federal budgetary process, we have to view it as one large pie. Monies which are spent (or not collected) because of these limited capital cost subsidy schemes must be viewed as monies which are not available for subsidizing the housing costs of truly poor people. Revenue which is dedicated to a Housing Development Action Grant or which is lost because a bond is tax-exempt is revenue that is not available to subsidize the housing cost of low-income people.

The only way to avoid such diversion of scarce resources from those who are most in need would be to irrevocably link the limited capital cost subsidies to programs which provide the full subsidies needed to make housing affordable. For example, tax-exempt bonds or Housing Development Action Grants could be limited to projects which not only accept but also are guaranteed tenant based operating subsidies, such as Vouchers or Section 8 Certificates, which are necessary to make such housing affordable by poor people.

D. Replace Tax Shelter Subsidies

The limited cost subsidy programs which have been the least effective and most troublesome in the past are those linked to the Income Tax Code. The tax shelter subsidy schemes fail almost every test of a sound housing program. The developers and syndicators' returns are paid very early in the life of the building. Their interest is correspondingly short-term, not long-term. With the tax shelter scheme, the financial benefit to the investors is independent of the successful long-term management and maintenance of the project and, thus, they have little, if any concern for those goals. Because tax shelter schemes rely upon private ownership of the properties, effective long-term use restrictions do not get imposed, creating the loss of units problem we are facing today.

The reduction in cost of housing for each dollar of income tax revenue which is lost is extremely diluted because of the indirect method of providing these subsidies and the exorbitant shares extracted by the developers, syndicators and other middlemen. The tax-created subsidy is not sufficient to make the housing affordable by poor people and no one asserts that it ever could be. The tax shelter schemes have never been targeted to poor people either, not even in the present low-income tax credit scheme under which 20 percent of the units are supposed to be rented to families with incomes beneath 50 percent of the median income. In few areas of the country do incomes at that level even approach, much less reach the poverty level. Finally, tax shelter schemes have never been coupled with sufficient regulatory power, primarily because the power to regulate has been conferred upon agencies inexperienced in housing matters and disinterested in housing concerns. Most important of all, these tax shelter subsidies are not necessary because whatever limited benefits they may produce can be just as effectively created through a capital grant scheme.

VII. HOW LONG SHOULD THE GOVERNMENT'S COMMITMENT BE?

One of the major problems now emerging with the federal government's housing programs is the expiration of the government's commitment to subsidize particular housing projects. This problem is primarily one of appropriations, but also one of the nature of the contracts developed by the federal government agencies. For example, the funds appropriated for the Section 8 Existing Housing Program in the early years were appropriated for a fifteen-year period. The appropriations made in the first years of the program will soon be expiring. When HUD received those appropriations, it entered into five-year Annual Contributions Contracts with the housing authorities to provide funds to those authorities for the operation of their Section 8 Existing Housing Programs. Those contracts get extended each year as new funds are added, but they still have a five-year cut-off. The monies appropriated for the project-based Section 8 Programs originally ran for terms from 15 through 40 years. The early appropriations are also getting close to expiration. In addition, more recently, the appropriations for the Section 8 Loan Management Program have been reduced to five years and some of those recent appropriations are reaching expiration stage as well. With the Farmers Home Administration Programs, the appropriations for the Rural Rent Supplement Programs were originally five years and they have already reached the expiration stage.

This experience with the Section 8 Program reveals the importance of committing the federal government to providing the necessary subsidies for a project as long as that project is needed for low-income housing and effectively provides such housing. Thus, for projects which are already operating as low-income housing and for programs like the Section 8 Existing Housing Program, the federal government must commit itself, at least morally, to renewing the appropriations as they expire in much the same way than the federal government has committed itself to providing benefits to Social Security recipients. Similarly, if a new program is to be created, which relies primarily upon capital grants and on-going tenant-based operating subsidies, a similar commitment must be undertaken to appropriate those funds as long as the projects are needed and are effective.

There is, however, a budget authority problem which must be addressed in formulating the nature of the government commitment. With the Section 8 Program, when monies are appropriated to meet 15-year commitments, the budget authority is calculated by multiplying the amount to be spent annually by 15 years. In terms of budget authority, long-term commitments, especially commitments for as long as housing is needed, would appear to be exorbitant. Expressing these long-term commitments in budget authority term, places housing programs at a disadvantage when compared to other federal government functions. Even within the housing area, those programs which carry long-term commitments appear to be more expensive, because of the budget authority analysis, than those which have short-term commitments. For example, much of the debate between Section 8 Existing Housing Certificates and Vouchers has focused on the increased budget authority for Section 8 Existing Housing because of the 15-year commitment. It is, thus, important to develop a commitment scheme which does not produce the budget authority problems now being encountered by programs like Section 8 Existing Housing and previously by Section 8 New Construction.

It is possible that the solution to this problem can be found in the history of the public housing program. The subsidies for that program are divided into two components: the capital subsidies and the operating subsidies. Until recently, the capital side has involved long-term commitments and budget authority has been run out over the length of those commitments. On the operating subsidy side, however, the commitments have always been short-term and the budgetary authority only slightly more than the outlays in the first year of the appropriation. In Section 9 of the United States Housing Act, the government commits itself to provide the operating subsidies which the housing authorities need, subject to the availability of appropriated funds. In a sense that commitment is no commitment at all because the Congress is always free not to appropriate the funds which are needed. Experience has demonstrated, however, that if effort is put in, Congress will, each year, renew the operating subsidy appropriation to provide the operating subsidies needed for the housing authorities' on-going operations. With any new programs, as well as with the expiring appropriations under the Section 8 program, Congress should make a commitment which will fill the twin goals of ensuring that subsidies will be made available for projects as long as they are needed without requiring that the budget authority be run out endlessly when the monies are appropriated. The model of the public housing operating subsidy program might provide the answer.

The need to renew the federal government's appropriations for the various housing programs as they expire raises a separate problem. It is not enough just to renew those appropriations. If the goal of making decent and affordable housing available to all who need it is eventually to be achieved, it will be necessary to appropriate additional funds each year beyond those which serve only to renew past commitments. Unfortunately, with the

Farmers Home Administration's Rural Rent Supplement Program, a precedent has been set of appropriating only enough additional funds to renew the commitments made to specific projects in the past and not enough to add subsidies for new families in new units. It is vital both to reverse that precedent in the FmHA Program and to ensure that the funds appropriated to renew other expiring appropriations are not used to dilute efforts to gradually increase the supply of housing available to all who need it.

VIII. HOW LONG SHOULD THE LANDLORD'S COMMITMENT BE?

Unfortunately, the design deficiencies of some of the existing federal housing programs are becoming increasingly self-evident now, as private owners seek to take advantage of conversion opportunities. Among the project-based subsidy programs, only the public housing and nonprofit-owned subsidized housing projects offer much promise of serving low-income families over the long run. These long-term commitments, at least 40 years, result from restrictions imposed upon the funding that was provided to PHAs and nonprofit housing owners, as well as from the fact that these groups exist to provide low-income housing, not to make profit. Other for-profit housing providers, when not restricted by the funding source, naturally choose to maximize their return whenever possible and will convert the projects to more profitable uses when it is in their interest to do so, regardless of the amount of federal assistance involved, the effect on a community's low-income housing supply, or the consequences for the residents themselves.

As Congress has begun to recognize, HUD's actions in restricting private owners only to a 20-year commitment in exchange for subsidized insured mortgages was a critical and costly error. Similarly, HUD's offer to provide Section 8 subsidies to a project over a long term, but giving the owner an opportunity to "opt out" at five-year intervals was also a major blunder, corrected in 1980 for most Section 8 projects. As Congress is learning the hard way, picking up the pieces of the crises created by such short-sighted policies is very expensive because current market-based subsidies must be provided to protect tenants. Portable subsidies, such as Section 8 certificates or vouchers, appear deceptively advantageous in the short run, even though owners who accept such subsidies are typically not locked in for periods longer than one year. However, over time, as market rents continue to escalate, the cost of such subsidies, if they are to remain truly affordable to tenants, will rise commensurately. Therefore, over the long term, project-based subsidies that carry long-term commitments and fix rent and subsidy increases below full market rates are by far the most fiscally responsible alternative.

These experiences have taught us that subsidized low-income housing should be committed to that purpose forever and not limited to some arbitrary number of years. The only exception to this rule should be where the housing provider can demonstrate that the housing is no longer needed for low-income use, a situation that, given the growing gap between need and supply, is hard to imagine. Another possible exception to this perpetual commitment would be if the provider can demonstrate that the project is not effectively meeting the housing need, in which case the units would be replaced on a one-for-one basis. Should there be any other unforeseen situations where perpetual commitment would create an extraordinary obstacle (such as irretrievable dilapidation or an environmental disaster), discretion could be given to the agency to permit removal, so long as one-for-one replacement of the units is guaranteed.

This same principle of perpetual commitment ought to be applied to any existing projects whenever there is an opportunity to do so. In the future, wherever a housing provider requests a federal benefit, perpetual use restrictions should be attached. For example, presently whenever a PHA accepts operating subsidies, the low-income use restriction is extended for 10 years. In subsidized projects, whenever additional Section 8 funds are committed, or whenever HUD grants a benefit or foregoes a right, such as providing approval of a transfer of physical assets, a work-out agreement, or a forbearance on foreclosure, these use restrictions ought to be extended perpetually. Only in this way can the scope of the problem created by past mistakes be minimized.

Finally, federal policy must preserve those units that have benefitted from federal subsidies in the past but are now jeopardized by threats of conversion. Congress should extend use restrictions for those units presently occupied by very low-income tenants and provide owners with project-based Section 8 subsidies to cover the difference between what these tenants can afford and some near-market rent that reflects any remaining financial benefits from the below-market financing. For the reasons discussed above, Congress should also create preemptive purchase rights and provide capital grants for nonprofit owners and public agencies willing to dedicate the housing to very low-income use perpetually. In the long run, this policy will be the most cost effective way of providing housing for those who should be served by scarce federal resources because the cost will no longer be continually dictated by inflated market returns.

IX. HOW DO YOU ENSURE HIGH QUALITY MANAGEMENT?

Housing management, especially management of low-income housing, cannot be left solely to market devices. Standards for good management must be established, personnel must be trained to become capable of implementing such standards, adequate compensation must be paid for good management, and appropriate oversight and enforcement mechanisms must be included to ensure actual achievement of the standards.

From experience, we know that many of the units under the public housing and privately owned subsidized housing programs have suffered from poor management. This is true despite the fact that under some of the programs, e.g., project-based Section 8, adequate funds have been paid to provide excellent quality management. Definite standards and oversight have been conspicuously absent. The same could be said of the other privately owned subsidized housing programs, such as Section 236, where adequate management fees are built into the basic rent paid by the residents, but due to the absence of periodic and detailed review, performance has been substandard. The result is ultimately higher cost to the federal government from poor conditions, mortgage defaults, vacancies and eventual foreclosure and property disposition. In privately owned subsidized housing, there were efforts made in the 1970s to improve housing management through detailed management reviews, but these reforms were unfortunately later abandoned. For many public housing units, there are neither the standards, the funding, nor the oversight to ensure adequate management.

For the future, federal housing policy must include specific standards for good housing management, developed after consultation with management and tenant groups. Second, in order to ensure the attainment of these standards, managers must obtain periodic training and certification of their capabilities to manage low-income housing, focusing not just on the physical and financial aspects of good management, but also upon the rules governing the applicable program and the social aspects of the job. Third, adequate compensation for good management must be built into the subsidy structure. Fourth, agency oversight of management performance must be on an annual basis and must include a thorough review of the project's physical and financial structure, including consultation with tenants. The regulatory mechanism must include adequate remedies for management's nonperformance, including the withholding or suspension of fees, termination of the agent and decertification from other HUD projects and programs.

Tenant enforcement devices will always be an essential component of ensuring management performance. These should consist of rights to notice and comment on major management decisions, specification of tenants as third-party beneficiaries of the regulatory contracts, establishment of administrative channels for resolving tenant complaints, and the recognition of explicit rights for tenants that are judicially enforceable when management standards are violated. Tenant participation in management should not be limited solely to a notice and comment role. Opportunities for tenant management corporations should be created by statute and regulation, with appropriate standards for certification and performance, so that residents can control their housing. At the same time, however, safeguards must ensure that the basic rights of all tenants are adequately protected.

X. WHAT SHOULD THE RESIDENTS' RIGHTS BE?

People deserve to be treated fairly by their housing provider, whether it be a public housing authority, a private owner, or a cooperative of the residents themselves. Federal housing policy must specify both the minimum standards for such fairness and the procedures required to ensure that those minimum standards are followed.

Past experience has demonstrated that the standards must be made explicit by Congress and the agency, in order to avoid a protracted period of abusive treatment and litigation to correct it. Both the standards governing admissions, rents, tenant-management relations, and evictions, and the procedures available to tenants have been the most developed in the public housing program, and therefore abusive treatment has been less prevalent there than under the other programs. In contrast, in the privately owned subsidized housing and Section 8 programs, unfair treatment of applicants and residents is widespread. Standards are not specified in sufficient detail and meaningful administrative procedures to contest unfair or arbitrary treatment are practically nonexistent. This situation exists even though the federal subsidies for some of these units can cover practically the entire cost of the unit, as under the Section 8 Program. For example, courts have held that the standards for Section 8 tenant selection or rejection are so vague that it is not even worth having a mandatory impartial administrative hearing to contest an applicant's rejection. Private owners and managers, be they profit-oriented or nonprofit, cannot be relied on to protect tenants' rights to fair treatment.

At a bare minimum, federal policy must ensure that people are treated fairly in the admissions process, particularly if the housing programs are not entitlement programs open to all who need them. Owners must demonstrate a good reason for rejecting an applicant, one that is directly related to the applicant's ability to be a satisfactory tenant. Insufficient grounds must be prohibited, such as past credit transactions unrelated to the landlord-tenant relationship or past landlord-tenant disputes where the tenant was simply asserting legal rights. The inquiry must be limited to whether the tenant would be a satisfactory tenant and capable of paying the subsidized rent level. Applicants must not be discriminated against on the basis of their income, race, or any other status category. Rejected applicants must have the opportunity for an administrative hearing with an impartial hearing officer who has the power to reverse management's decision. Every owner must have developed a specific and detailed tenant selection plan that has been reviewed and approved by HUD or FmHA for fairness in accordance with established standards.

Housing policy that dispenses federal subsidies must also require a grievance procedure for an informal non-judicial resolution of common landlord-tenant problems. Without a grievance procedure, landlord-tenant problems escalate to an often unresolvable level, producing unnecessary litigation in state eviction courts. The required procedure should resemble the existing grievance procedure for public housing. Applying such a procedure to privately owned subsidized housing would be a significant step in improving landlord-tenant relations and reducing the arbitrariness characteristic of many projects' management. These procedures should also be used to contest every-day disputes, such as management's failure to make requested repairs or management charges for alleged damages, because drawing the line between damages and ordinary wear and tear should not be left exclusively to the landlord. The grievance procedure should also be a mandatory forum for attempted resolution of all eviction disputes because it is more accessible and potentially more fair than many state eviction courts.

Evictions from housing subsidized under any federal program must be only for good cause, as the courts, the Congress, and HUD have all now recognized. Required standards should resemble existing good cause requirements. Additionally, because federal housing is a need-based program, it must be recognized that low-income families occasionally encounter circumstances where they are temporarily unable to pay the rent, and therefore good reasons (e.g., departure of a wage earner, extraordinary medical expenses, or temporary delay in receiving public assistance) should justify a nonpayment of rent. Federal law should also specify adequate notice periods for nonpayment of rent which will allow tenants sufficient time to cure the delinquency. Notices must be factually specific, and an informal hearing should be held before an impartial hearing officer prior to commencement of a judicial eviction so that all unnecessary evictions can be avoided.

XI. HOW CAN EFFECTIVE ENFORCEMENT AND IMPLEMENTATION MECHANISMS BE DEVELOPED?

It will not be enough for Congress merely to create a new framework for a national housing policy. Much more attention will have to be paid to the mechanisms by which those policies will be implemented and enforced. One of the most impressive things which our work teaches us repeatedly is that policies written on paper in Washington are not easily translated into improvements in the day-to-day lives of real people elsewhere. Nothing happens after Congress passes a statute unless, and until, federal agencies promulgate regulations and issue interpretive handbooks, owners and managers are trained on those handbooks and regulations, federal, state and local officials step in to monitor implementation of those policies and, in some cases, courts are asked by program beneficiaries and others to enforce the rules.

In the development of federal housing policies, attention must be paid to these concerns. Regulatory powers must be conferred upon agencies which have the knowledge, skills and capacity to implement and enforce the new programs. One of the major deficiencies with the new low-income housing tax credit is that implementation and enforcement responsibilities are focused upon the Internal Revenue Service, on the federal level, and on diverse entities on the state level, few of which have either housing knowledge or housing concerns. The power to implement, regulate, and enforce must be conferred upon housing agencies like HUD and the Farmers Home Administration.

Even that is not enough, however. The agencies must be given sufficient resources to develop the implementing policies as well as be specifically obliged under tight deadlines to do so. We are still waiting for HUD to issue regulations on the admissions priority for residents of substandard housing and involuntarily displaced applicants which were enacted in 1979 and the nondiscrimination requirements that were established by Section 504 of the Rehabilitation Act of 1973. Congress must impose regulatory deadlines on the federal housing agencies in order to make the new policies effective expeditiously. It is also necessary to be much more realistic than Congress has been in the past in appropriating funds to the federal agencies to carry out their enforcement powers. As the Supreme Court recognized just this year, HUD monitors the activities of housing authorities on a once every six year cycle and cannot do what is necessary to create even a semblance of reality for newly formulated housing policies.

Given the wide gap between the federal agencies' monitoring and enforcement capacities and the needs for such activities, Congress should also confer upon state and local government agencies the power to ensure compliance by landlords with federal housing policies. That is not to suggest that state and local government enforcement should be viewed as a substitute for federal agency enforcement. The need is too great to relieve the federal agencies of any monitoring and enforcement responsibilities. Instead, the state and local government efforts should be structured as complements to the federal efforts.

Even more important is the need to allow program beneficiaries -- applicants, tenants, homebuyers, neighborhood residents, etc. -- to enforce the federal housing policies in court and through effective administrative processes. Too many times over the past ten years courts have refused to allow tenants and other intended beneficiaries of the federal housing programs to enforce the federal housing statutes and regulations. They have done so, primarily, with the notion that Congress did not expressly indicate that it intended such private parties to be able to enforce the federal statutes and regulations. Given this reluctance of the courts to allow private enforcement, Congress must make it clear not only that it intends to create housing rights for poor people, but also that it expects them to be able to enforce those rights in federal court.

XII. CONCLUSION

The present federal housing programs must be modified and expanded and new ones created to make decent affordable housing an entitlement for everyone in this country whose income is too low to afford such housing. While we move to accomplish that goal, we must give the highest preference to those with the lowest incomes and those encounter the highest barriers in the private market. In all the present programs and any new programs, the rents or housing payments must be set at the level the residents can afford, given their individual circumstances. Some reliance can still be placed upon private-market programs, like Section 8 Existing Housing, but a much greater shift must be made to project-based programs. With such programs, the greatest reliance must be placed upon public housing authorities and nonprofit sponsors, and little, if any, share should be allocated to for-profit, private developers. The subsidies should be structured as capital grants accompanied by on-going operating subsidies. Any limited capital subsidy programs, including tax-shelter schemes, should be replaced with true low-income housing programs. The government should be committed to provide the subsidies for as long as the housing is needed and useable and the owners should be committed to such long-term use restrictions as well. The rights of the tenants must be made clear from the beginning and sufficient regulatory and enforcement powers, including private enforcement rights of program beneficiaries, must be created so that the renewed national commitment to housing can become a reality.

The views that we express are not shared by all and some are not likely to be accepted. Nonetheless, it is only through the expression and consideration of diverse and often opposing views that a workable set of programs can be developed and implemented. To do that will be a great challenge for you, as leaders of the Senate Housing Subcommittee, for the other members of the Subcommittee and eventually for the Congress and the nation as a whole. The plight of the homeless and the poor people whom we represent on a daily basis demands that that challenge be met.

Respectfully submitted,

David B. Bryson
James R. Grow
Roberta Youmans
NATIONAL HOUSING LAW PROJECT

By David B. Bryson
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October 5, 1987

The Honorable Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
SDOB 535
Washington, D.C. 20510

Dear Senators Cranston and D'Amato:

The National League of Cities thanks you and all the members of the Senate Housing and Urban Affairs subcommittee for inviting us to participate in the development of a new framework for national housing policy. Indeed, housing is one of the top three legislative priorities adopted this year by the Board of Directors for the National League of Cities.

We view this response as an initial step as your committee along with interested parties like NLC begin a process expected to take over a year and one half. We anticipate future opportunities during this process to share our views and reactions to policy proposals which arise from this process.

The League's Community and Economic Development Steering Committee, currently chaired by Council President, Ruth Scott of Rochester, New York is the group which primarily develops and proposes housing policies for the organization and it is my understanding that this committee will be meeting with members of your committee staff on October 16 to continue this process.

Our members believe two overarching concerns should guide national housing policy.

First, federal housing assistance should be directed to assist low- and moderate-income households. The provision of safe, decent housing to individuals and families who would otherwise be precluded from any acceptable shelter must be the foundation of the federal housing role.

Second, it has been the contention of NLC for the past several years that the mechanisms used to provide such assistance should be viewed as a package. Congressional procedures should ensure that tax expenditures, direct spending and credit programs all be part of housing policy decisions.

Past Presidents: Tom Bradley, Mayor, Los Angeles, California • Ferd L. Harrison, Mayor, Scotland Neck, North Carolina • [illegible] Executive Director, North Dakota League of Cities • [illegible] Mayor, Columbus, Ohio • [illegible] Mayor, Shelbyville, Indiana • [illegible] Executive Director, Association of Idaho Cities • [illegible] Mayor, Topeka, Kansas

Priority in federal housing assistance--whether provided directly or through provisions in the tax code--should be given to meeting the housing needs of people who could not otherwise obtain decent, affordable housing. The balance between monies devoted to low-income housing assistance and the homeownership provisions of the tax code should be reviewed.

League policies as adopted by the membership emphasize the following federal roles in housing provision for low- and moderate-income households:

1. The provision of rental assistance in the form of cash subsidies, to help low-income renters afford decent housing. We believe it would be desirable to have an expanded unified program that uses Section 8 as the basic framework and serves all of the eligible households.

2. Federal programs should seek rehabilitation of single and multi family housing units and additionally continue programs of rehabilitating public housing and providing for special housing needs such as shelters for the homeless. Programs for new housing construction and homeownership should also be continued.

3. Continued availability of a mix of federal housing programs in recognition of the fact that no single programatic focus, regardless of its level of funding, can adequately address the diverse housing needs of low- and moderate-income Americans.

Thank you again for this initial chance to participate in this most important process. We eagerly anticipate future opportunities. Enclosed are two NLC housing studies and a copy of the League's existing housing policies and resolutions.

Sincerly,

Cathy Reynolds

Cathy Reynolds
Councilmember-at-Large
Denver, Colorado and
President of NLC

RESOLUTION #9

CONTINUATION OF FEDERAL MORTGAGE INTEREST SUBSIDY PROGRAM

WHEREAS, the Federal government has, for the past quarter century, provided developers of low- and moderate-income housing projects with mortgage-related subsidies; and

WHEREAS, these housing projects have been identified according to the subsidy program attached, namely HUD Section 236, HUD Section 221(d)(3) and FmHA Section 515; and

WHEREAS, as an inducement to for-profit developers, the HUD Section 236 and 221(d)(3) programs offer mortgage prepayment options at the end of the 20th year and 40-year mortgages; and

WHEREAS, as a similar inducement, the FmHA Section 515 places no restrictions on mortgage prepayments; and

WHEREAS, the U.S. General Accounting Office estimates that, as a result of these mortgage prepayment options, as many as 173,000 units (50% of total) of HUD Sections 236 and 221(d)(3) housing and 275,000 units (100% of total) of FmHA Section 515 housing may be lost by the year 2005;

NOW, THEREFORE, BE IT RESOLVED that the National League of Cities urges:

- local elected officials to examine the potential impact of the loss of low- and moderate-income housing units in projects receiving Federal mortgage interest subsidies;
- Congress and the Federal government to identify and, where necessary, develop incentives to prevent the prepayment of Federally subsidized mortgages and, in so doing, retain the nation's stock of privately owned, Federally subsidized low- and moderate-income housing; and
- state and local governments to identify and develop similar incentives as an added means of preserving this segment of our nation's low- and moderate-income housing stock.

Approved by the Membership of the National League of Cities
Annual Business Meeting • December 3, 1986 • San Antonio

RESOLUTION #10

RENEWAL OF SECTION 8 RENTAL SUBSIDIES

WHEREAS, Section 8 of the Housing and Community Development Act of 1974 provides for rental subsidies which enable eligible low-income families to afford decent quality housing; and

WHEREAS, the Section 8 rental subsidy program has been a critical and effective mechanism for achieving the goal of a decent home in a suitable living environment for every American; and

WHEREAS, the demand for Section 8 subsidies continues to exceed the available supply as housing costs escalate and affordable units diminish; and

WHEREAS, Section 8 certificates are used in two ways: (1) to subsidize unit rents in "new construction" and "substantial rehabilitation" projects (project-based), and (2) to subsidize tenants' rent in "existing" private housing (tenant-based); and

WHEREAS, the U.S. General Accounting Office estimates that between 880,000 and 1.1 million "project-based" certificates will expire between the years 1985 and 2005 unless renewed; and

WHEREAS, the failure to renew such certificates will reduce the already low supply of decent, affordable housing for low- and moderate-income families and threaten the financial viability of existing housing projects; and

WHEREAS, Section 8 "existing" certificates are increasingly being converted to housing vouchers with 5-year rather than 15-year contract periods;

NOW, THEREFORE, BE IT RESOLVED that the National League of Cities strongly urges the Congress and the President, through the Department of Housing and Urban Development, to renew Section 8 rental subsidy certificates attached to "new construction" and "substantial rehabilitation" projects.

BE IT FURTHER RESOLVED that the National League of Cities opposes the conversion of Section 8 "existing" certificates to housing vouchers and, instead, urges their extension for full 15-year additional period.

Approved by the Membership of the National League of Cities
Annual Business Meeting • December 3, 1986 • San Antonio

National Municipal Policy

1987
Adopted at the
Annual Business Session
Congress of Cities
San Antonio, Texas
December 3, 1986

National League of Cities
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3.03 Housing And Neighborhood Conservation

A. Housing and Neighborhood Conservation Needs and Goals

NLC's goal is a decent home in a suitable living environment for every American. But between this goal and existing conditions, there lies a significant gap: too many Americans live in inadequate dwellings in deteriorated neighborhoods and, for too many, the cost of decent housing is beyond their means.

To close this gap, NLC advocates the following policies with regard to housing:

Housing Conservation and Production

- increased emphasis on conservation of the existing housing stock
- an adequate level of new housing construction, especially for low and moderate income people, the elderly, and the handicapped

Special Housing Needs

- effective and sufficient assistance to meet the housing needs of those who cannot otherwise afford decent housing

The Locational Dimension of Housing

- strengthened efforts to ensure a range of housing opportunities to all Americans without regard to income, race, sex, or age
- effective incentives for city housing investment and an end to ""suburban sprawl''

The Local Government Role

- a strong role and adequate resources for local governments in solving housing problems

In the latter half of the 1980's, the housing needs and problems of low- and moderate-income Americans represent a crisis of national proportions. Contributing to the creation of this crisis is a combination of forces in the general economy, specific trends in private housing markets and changes in public policy.

Together, these crisis-contributing factors threaten the continued availability of decent quality housing for low- and moderate-income persons and cause the cost of available units to increase significantly. As a consequence, local governments today face severe problems among low-income renters, the most severe being the growing problem of homelessness.

Despite a wide array of innovative efforts and initiatives by states and local governments, there remains today an irreplacable role for the Federal Government in addressing the nation's housing needs. The primary emphases in Federal housing policy should be:

1. The provision of rental assistance, in the form of cash subsidies, to help low-income renters afford decent housing;

2. The rehabilitation of single-family and multi-family housing units;

3. The continuation of programs for new housing construction, homeownership, rehabilitation of public housing and special housing needs such as shelters for the homeless; and

4. The continued availability of a mix of federal housing programs, in recognition of the fact that no single programmatic focus, regardless of its level of funding, can adequately address the diverse housing needs of low- and moderate-income Americans.

NLC wants this nation to have a vigorous private sector housing industry that will contribute to achieving these housing goals. Furthermore, NLC supports federal efforts to implement these housing policies. Taken together, the totality of federal programs--if appropriately strengthened and supplemented, if adequately funded and effectively implemented, and if accompanied by adequate job opportunity and income maintenance programs for those in need—would give promise of reaching our housing goals. These programs must be effectively coordinated with community and economic development programs to achieve an integrated approach to neighborhood conservation.

B. Housing Conservation and Production

1. Balance of Production and Conservation

A balance of production and conservation—geared to the need of local housing markets—is necessary in federal policies and programs. An adequate level of new construction is required, especially for low and moderate income people, the elderly, and the handicapped, and to meet the needs of a growing population. Along with efforts to meet these needs, conservation and better use of the existing stock of urban housing should be a top priority.

There is an urgent need to conserve rental units and, in many housing markets, to increase the supply of affordable rental units. We would support a careful strategy, involving several approaches, that would assist low, moderate, and middle income families to deal with this problem. Such a strategy should include tax policy and expenditure programs that will (a) encourage maintenance of existing rental housing resources and rehabilitation of substandard and abandoned units, (b) provide incentives and remove disincentives for production of affordable rental units in cities, and (c) ensure that rental units assisted under such programs can be maintained and will remain viable over the longer run. Middle income aspects of this strategy should not involve direct subsidies but rather should provide changes in allocations within the private long-term credit markets to assure greater availability of permanent financing for new construction in cities.

NLC supports locally administered programs to provide incentives for housing for moderate and low income people such as mortgage revenue bonds to provide rehabilitation and new construction loans for such people.

2. Credit Programs

NLC supports continuation of such credit programs as those carried on by the Federal Housing Administration, the Farmers Home Administration, the Veterans Administration, the Federal and Government National Mortagage Associations, and the Federal Home Loan Mortgage Corporation. These programs are an integral part of the nation's housing finance system. They must, therefore, be oriented to serve better the needs of older city areas and of persons who wish to live in older dwellings. We urge flexibility in consideration of FHA and VA guidelines that will address local needs.

High interest rates and deregulation of the nation's financial institutions have combined to undermine the structure of housing credit markets. We are concerned that mortgage credit be available to consumers and developers of housing at affordable rates. We therefore support the establishment of means to direct capital into mortgage funding and to ensure affordable rates for new constructed units, acquisition and rehabilitation, and home improvements. These affordable mortgages should be used for units that are not priced significantly above area medians.

3. Rehabilitation

Federal housing rehabilitation programs should be expended and strengthened. They should be supplemented, as needed, by social services and by home ownership and home maintenance counseling. Housing rehabilitation is a critical component of local community revitalization efforts. NLC strongly supports major expansion of the Section 312 program and urges that its administration remain flexible and avoid burdensome earmarking for special categories of need. Any housing rehabilitation program should serve the full range of rehabilitation needs—single family and multi-family units, as well as business properties—and should be recognized as one which addresses itself to preservation and rehabilitation of the housing stock as part of a broader neighborhood revitalization effort, rather than as a program to subsidize individuals.

We support federal incentives for increasing the energy efficiency of housing.

4. Abandonment

Additional effort is needed also to eliminate the large numbers of abandoned housing units which exert a retarding influence on community improvement efforts and to convert these liabilities into opportunities to foster homeownership through homesteading programs. In some cities, the federal government is the biggest slum landlord. It is urgent, therefore, that the federal government revise and simplify its rules with respect to all federally-owned abandoned housing to permit appropriate and quick remedial action by local governments. It should increase funds available for homesteading programs and should make municipally-owned and VA units eligible.

5. Other

Finally, comprehensive housing conservation and rehabilitation requires: the commitment and support of the nation's leading industry, which must devote greater resources to the housing needs of decaying neighborhoods; tax incentives for conservation and rehabilitation that effectively compete with incentives for the construction of new housing; and the continued development of the rehabilitation industry through such techniques as market aggregation and small business and minority set-asides.

C. Special Housing Needs

1. Assisted Housing

The housing market is in a crisis situation and particularly it does not meet the needs of certain groups. The problem is especially acute for those whose income is not adequate for them to purchase decent housing at market prices. These households should be entitled to housing assistance through federal and state programs.

Of particular importance are federal subsidy programs which aid in the construction of housing for people with low and moderate income, the elderly, and the handicapped. These programs—particularly HUD's Section 8 housing assistance programs, public housing, Farmers' Home Administration programs, and the housing for the elderly program—provide the only sources of new housing for those who are unable to obtain housing without federal assistance. NLC supports substantially higher levels of funding for these critical housing production programs and urges the Congress to provide multi-year funding to assure continuity and to facilitate public and private planning and construction efforts. More specifically, we urge the federal government to provide adequate program levels: 400,000 HUD units annually, apportioned among new, rehabilitation and existing unit subsidies according to the aggregated Housing Assistance Plans, and 200,000 FmHA units annually. In addition, homeownership should be encouraged through low interest loans and other subsidy programs to make home ownership possible for those low income groups now relegated totally to living in rental units.

The Section 8 program—including its new, rehabilitated and existing housing elements—will remain important for cities. A more accurate assessment of fair market rents should be made for specific areas rather than for multi-county areas, and fair market rents should be frequently updated as a matter of course during times of inflation in order to compensate for and take into account increased costs of housing production and operation.

The low-rent public housing program provides decent housing for millions of low-income people. Much of this housing, however, is not energy efficient and has become seriously deteriorated after many years of intensive use. Highest priority should be given to federal subsidies which are needed on a continuing basis for operating subsidies, modernization of units, making the units energy efficient, and the provision of social services (including counseling and financial management) if the nation's investment in this important source of housing is to be protected. Congress should fulfill its commitment to provide funds to replace income lost as a result of the Brooke amendment to P.L. 93-383. In new construction, design of public housing projects should more closely correspond to the needs of the inhabitants. Finally, public housing must not be considered the housing of last resort. It must be administered in such a way as to avoid concentration of families with problems relating to others and in such a way as to re-assign such families when necessary.

The housing needs of large families without adequate income have not received sufficient attention. The federal government should examine existing programs—especially Section 8 and public housing and federal assistance to promote ownership for low income families—to find better ways of meeting those needs. If existing programs do not meet the needs of large families, we support implementation of program levels and program modifications that will meet those needs.

A program of housing ""vouchers'' to help poor people afford decent housing may be a useful addition to the array of assisted housing programs. But such a demand-side approach will not improve either the quantity or quality of dwelling units available to poor people; it must be implemented alongside programs for production, rehabilitation, and maintenance of dwelling units for poor people as well as enforcement of anti-discrimination laws. The combination of these different approaches should vary according to the needs of local housing conditions.

The federal government now has, in effect, two demand-side subsidy programs for low-income households: Section 8 certificates and ""vouchers.'' We believe it would be preferable to have an expanded, unified program that uses Section 8 as the basic framework and that serves all of the eligible households. A payment standard can be appropriate but only if it is set realistically at adequate levels. In order to assure that assistance improves the quality of housing for the recipient family, the Section 8 Housing Quality Standards or applicable local standards if they are higher, must be applicable to the units. Further, since the purpose of the subsidy is to assist in the affordability of housing, the economic dynamics of each housing market necessitate that adjustments in the recipient's level of assistance and the jurisdiction's payment standard be made on an annual basis. Assistance payments on behalf of a tenant family should be made directly to the landlord by the PHA. Proper and efficient administration is a key to the success of any housing program; it is imperative that adequate administrative fees be given the Public Housing Authority to insure successful program operation. To be successful, the program also requires effective outreach, counseling, and fair housing support.

We support enactment of an adequately funded rental housing production and rehabilitation program that is highly targeted to low and moderate income households and that provides maximum authority to local governments in meeting the needs of these households. Section 8 certificates or other vouchers should be set aside for use in these assisted units.

We could support a full-scale housing block grant that would provide maximum flexibility to local governments in implementing housing assistance. Until an appropriately structured and adequately funded housing block grant is established, however, all other programs must be retained. Under any circumstances, public housing should remain a separate program.

2. Middle Income Housing

The increasing costs of housing have created problems for even middle-income persons. While these problems deserve and require public attention and actions, funds and energy should not be diverted to these problems from the funds and energy required to solve low- and moderate-income housing problems. Non-subsidy approaches should be examined. Special attention should be given to the need to control housing costs through simplification of housing design requirements and other changes in regulations that now incur unnecessary costs and through alternative financing mechanisms that have adequate consumer safeguards. Since substantial housing subsidies are already available to middle income households, further subsidies should be directed at these households only to achieve other goals besides housing affordability: encouraging them to live in cities or to use existing housing that would otherwise be wasted.

3. Housing-related Services

Bricks and mortar, by themselves, are not sufficient to upgrade the quality of urban life for city residents. Housing programs must include provisions for long-term supportive services for low- and moderate-income occupants and associated supportive services to create and maintain a healthy physical and social neighborhood environment. Particular attention should be directed toward the problems of economically-dependent single-parent families, the elderly, and large families.

4. ""Cashing-Out''

Housing programs help achieve other goals besides income transfer. Proposals to ""cash-out'' housing programs for welfare, without the addition of a vast new amount of monies to the welfare system, would have a negative effect on the effort to provide decent housing for everyone and we therefore oppose them.

5. Housing and the Tax Code

Priority in federal housing assistance—whether provided directly or through provisions in the tax code—should be given to meeting the housing needs of people who could not otherwise obtain decent, affordable housing. The balance between monies devoted to low-income housing assistance and the homeownership provisions of the tax code should be reviewed.

All federal housing assistance, including that which results from provisions in the tax code, should be considered in a housing policy context. As a step in that direction, we recommend that the President include in his budget request and the Congress include in its first budget resolution, an analysis of the distribution of all housing assistance among income classes.

Revenues realized from changes in housing-related tax provisions and from housing expenditure programs should be used for production, rehabilitation, and housing allowances for low-income households.

Until effective alternative housing supply and financing mechanisms are put in place, the present tax incentives for the production, rehabilitation, and maintenance of low-income housing should be retained. As a priority, we urge continuation of revenue bonds for multi-family rental housing. With regard to all such tax incentives, we support improving their efficiency and we support improving their targeting to lower income households.

6. States' Roles in Meeting Special Housing Needs

To varying degrees, states have been involved in providing assistance to meet special needs. There should not, however, be any general transfer of roles in federal housing programs from local governments to states. Insofar as state roles do increase, the state should provide additional monies, should provide for its administrative costs, and should consult with and obtain agreement of local governments through their state leagues in designing and implementing the programs.

7. Homelessness

High unemployment rates, policies for de-institutionalization, budget cuts in social service programs, and other factors have combined to increase the number of Americans who need food, clothing, shelter and toilet facilities. These people turn to local government for assistance, especially in emergencies, and these problems become even more acute in the winter months. These needs must be met but local governments are unable to carry the increasing burden. The federal government bears responsibility for some of the causes of this increase in the number of hungry and homeless Americans. We urge the federal government to acknowledge this responsibility and to continue to provide assistance to local governments and local partnerships to address the needs of all persons affected by homelessness.

D. The Locational Dimension of Housing

The National League of Cities is very concerned with the locational dimension of housing—the impact of the placement and availability of dwellings on the nature of American communities.

1. Growth Patterns

This locational dimension has two aspects. First, there is the question of physical growth patterns. NLC opposes "suburban sprawl'' and disinvestment from cities and parts of cities because they undercut the vitality of existing urban places, large and small, and because they unnecessarily consume valuable open space and agricultural land. NLC supports the intelligent management of growth, including housing development, for the purpose of sustaining and improving the vitality and quality of life in our nation's cities.

Federal and state policies that directly or indirectly provide incentives for sprawl or for disinvestment from cities should be reversed. Federal and state programs should favor the placement of new construction in already-developed areas. Tax incentives should also be used to encourage housing investment in new and existing buildings in distressed areas of cities. Regulation and other controls of banking and the various elements of the housing industry should continue to move toward removal of barriers to city reinvestment and incentives should be provided that favor city housing. Discrimination against city locations should be removed from all types of insurance.

As middle and upper class reinvestment in neighborhoods occurs, provisions must be made, through the use of housing programs, for low and moderate income and aged persons who are potentially displaced by reinvestment.

2. Housing Opportunities

The second aspect of the locational dimension of housing is social and has to do with what groups of people can live in which places and with what kinds of cities result. NLC opposes all housing discrimination that denies people equal access to housing opportunities. NLC supports enactment and vigorous enforcement of policies that ensure and require a wide range of housing opportunities for all persons in the community or neighborhood of their choice. We believe that communities have an affirmative obligation to provide housing opportunities for people of all races, ages, sexes, and incomes. We support enforcement of reasonable ""fair share'' requirements, including denials of federal program funds to communities that refuse to provide adequate housing for low and moderate income people. We also encourage the federal government to provide financial incentives for implementation of such ""fair share'' arrangements.

NLC supports a national policy favoring the promotion and preservation of housing markets—and neighborhoods—that equally attract homeseekers from all racial groups and do so by means that expand, not limit, options for individuals.

NLC supports strengthened federal laws and enforcement procedures against housing discrimination. The standard of proof for discrimination should be effect (rather than intent). Handicapped persons and families with children should be protected categories. An administrative law judge procedure should be the primary mechanism for adjudicating individual complaints of housing discrimination. In addition, the Executive Branch should be authorised to pursue through the courts any housing discrimination complaint. In order to be certified as comparable and thus to supersede federal laws, state and local laws should guarantee similar rights and provide similar remedies to the federal law.

E. The Local Government Role

City governments have a major and crucial role to play in achieving the nation's housing goals. This has been increasingly true since the Housing and Community Development Act of 1974 greatly strengthened local governments' involvement in carrying our federal housing assistance programs in the context of the localities' overall community development efforts. To carry out this role, local governments must have adequate resources and authorities within these federal programs.

The locally-prepared Housing Assistance Plan (HAP) provides cities with the opportunity to make such key housing decisions as the mix between new, rehabilitated, and existing housing to be assisted; the type of housing to be built or utilised; and the location of assisted housing units. NLC believes that, within broad federal guidelines, these decisions must remain at the local level, except for over-riding reasons of national importance. Federal support is needed, however, to help make available the detailed information needed by localities to make such decisions, information which is often inadequate.

Further federal and local experience with HAPs may evolve into an even broader and more extensive role for local governments in carrying out housing assistance programs through the development of a housing block grant program. Under such a block grant, local governments should provide the full range of housing assistance and supporting social services in conjunction with the development activities they now carry out under the Community Development Block Grant program. NLC urges that the federal government explore the feasibility of a housing block grant program through demonstration programs in selected urban areas.

Local governments themselves can do much to facilitate housing construction, reduce housing costs, and conserve the existing housing stock through periodic updating of relevant codes. In addition, zoning laws should be carefully scrutinized to permit construction of housing for a wide range of income and age groups. State governments should remove restrictions that prevent local governments from making these and related improvements.

National Leased Housing Association
NLHA

HOUSING POLICY STATEMENT OF THE NATIONAL LEASED HOUSING ASSOCIATION

Preamble

Although the vast majority of Americans are well-housed, severe housing problems nonetheless exist as evidenced by the following:

- The ever-increasing homeless population, estimated at from 300,000 (HUD estimate) to 3,000,000 (estimate of housing advocates).
- Large public housing waiting lists, such as 44,000 in Chicago, 60,000 in Miami, and 200,000 in New York City.
- Low income people spending too much of their income on housing: for example, one-third of single mothers utilize 75 percent of their income for housing.
- There is a large gap in the number of the low-income families and the housing available for them; the Neighborhood Reinvestment Corporation estimates that by 1993 that gap will equal 3.7 million units and by 2003 there will be a 7.8 million gap between the number of low income families and the units available to house them.

These housing needs are familiar. The goal of the Senate Banking, Housing and Urban Affairs Committee is to determine the best ways to meet them. We understand that the Committee, and its special task force, will be re-evaluating from ground zero all existing programs as well as exploring all new alternatives. The National Leased Housing Association also utilized this approach in preparing this paper.

To formulate NLHA policy, our president appointed a special task force with the charge of taking a fresh look at all of today's housing issues. We established the following procedure. First, we determined the various categories of the housing needy in that different approaches must be utilized for varying housing needs. We then examined what programs should be utilized to meet each of the needs. This analysis allowed us to determine the optimum contours of any new housing production program, as well as helping us determine which present programs should continue.

I. Categories of Housing Need

We identified seven broad categories of housing need as follows:

A. Handicapped, Frail, Elderly, and Others with Special Service Requirements
B. Other Special Needs Categories:

1. Farm Workers
2. Indians
3. The homeless
4. Very large families

C. The rural poor*
D. Very low income urban poor
E. The elderly poor
F. The working poor
G. Moderate income groups

II. Tools to Meet the Needs

Upon analyzing the needs, we concluded that the federal government should provide four basic tools to meet them - the present Section 8 existing certificate program; continuation of such categorical programs as rural assistance under Title V of Housing Act of 1949, Section 202, Section 8 moderate rehabilitation and public housing on a limited basis; a new block grant program funded off budget from a federal housing trust fund, and tax incentives.

Section of Existing Program

The Section 8 existing program has proven highly successful. Currently, this program is administered through either Section 8 certificates or vouchers. Although there are significant differences between certificates and vouchers, basically they are very similar programs in concept. The major difference between certificates and vouchers are that under the voucher program, a tenant can pay higher than 30 percent of family income for rent if the family so chooses and the landlord can receive more than the HUD-approved fair market rent. The concepts of rent reasonableness and affordability are included in the workings of the certificate program and not the voucher program. However, both variations rest on the sound concept of utilizing existing housing stock, when available, to meet low-income housing needs. Certainly in an era of escalating building costs, preservation of our existing housing stock is a most sensible and necessary approach.

How can certificates or vouchers be utilized to meet the seven categories of need outlined above? Utilization of the existing stock is especially useful for meeting the needs of very large families when rentals are available, the very low income urban poor again assuming the availability of units that meet housing quality standards, as well as the elderly and working poor. If decent existing stock is available, it should be utilized rather than building new housing for very low income people.

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* This includes rural poor who own land but have no other liquid assets. These "land rich" families should qualify for housing assistance.

Other Categorical Programs

There are some areas where there just is not a supply of existing housing available for low income renters. In rural areas, this is especially true. For that reason, we favor the continuance of the Section 515 rural rental program as well as the Section 514 and 516 program for migrant workers. Likewise, in many areas there is not a sufficient stock of apartments suitable for elderly tenants. Accordingly, the Section 202 elderly housing program, with its proven track record, should also be continued and targeted more carefully. The Section 8 moderate rehab program effectively helps to preserve low income housing and prevent abandonment in urban neighborhoods. Finally, there also may be instances in urban areas where public housing is the only feasible method to increase the stock and for that reason, the public housing program should always be kept on the books and utilized on a limited basis.

Housing Block Grant Program

We have stressed the need for the continuation of the Section 8 existing program and certain categorical federal programs. However, to meet the diverse requirements of the seven categories of housing needy described above, we believe that a program that could result in housing production is a necessity. The problem in determining the proper production vehicle is that housing needs vary locality by locality, and that it is impossible to state on a national basis how scarce housing production funds should be utilized. Accordingly, Congress should institute a Housing Block Grant program (HBG) to provide funds to localities who in turn would determine how production dollars could best be utilized in their community. On a macro basis, production funds are necessary to meet the housing needs of those in special categories such as the handicapped and frail elderly, especially those needing health services, selective new construction in tight markets for the very low income urban poor, the elderly poor, and to house the working poor in mixed income projects receiving a shallow subsidy. Block grant funds could also benefit moderate income families living in newly constructed mixed income projects. Also, block grant funds could be utilized to assist moderate income first time home buyer loans. Indeed, localities might want to experiment with convertible certificates that can either be utilized for rental subsidies or for mortgage payments.

The HBG program would be analogous to the community development (CDBG) program, setting forth standards and requirements to be met before any funding allocation was made, including the establishment of state and local housing plan requirements, fair housing requirements, urban-rural fair share criteria, and a criteria of eligible use which should be very broad.

The Housing Trust Fund could be funded off-budget from a number of sources: first, the present housing development action grant (HODAG) and rental rehabilitation programs under Section 17 of the United States Housing Act could be rolled into the block grant. Other funding sources for a housing trust fund could be a transfer tax on real estate transactions, a tax on the interest from escrow accounts that would be earmarked directly for the fund, or a portion of the tax on capital gains on the sale of real estate. The fund would be an ideal vehicle for private donations from corporations, civic groups and individuals desiring to help low income housing.

III. Utilization of Tax Incentives

History has shown that no matter what type of housing program is developed, it does not contain enough incentives to attract private capital on its own. The Section 8, Section 236, and Section 221(d)(3)BMIR program would not have worked without the incentives of the tax code. As an illustration, at this time, the Section 515 rural rental program would not be successful but for its combination with the Low Income Housing Tax Credit.

Today the only tax incentive for low income housing is the Low Income Housing Tax Credit contained in Section 42 of the Internal Revenue Code. We believe that the credit has gotten off to a very successful start, and has all the earmarks of a workable program. The tax credit program sunsets on December 31, 1989. If in the next year the program turns out to be as successful as we expect, a strong argument can be forwarded for making the tax credit a permanent program to be used in conjunction with the Section 8 certificate program, Section 515, and programs funded under the HBG program. If on the other hand, it turns out that the tax credit is not a successful program, then the amount of tax expenditure involved in the credit (up to $3 billion annually) should be utilized to help fund the housing trust fund.

Another innovative approach utilizing the tax laws without returning to the prior tax shelter mechanism would be to allow tenants to deduct the portion of their rent attributable to the owner's interest payments and property taxes. This change would treat tenants equally with homeowners, who are allowed to make such deductions. The result would be far greater ability of middle-income renters to pay the necessary rent for the unit and would encourage the construction of additional rental housing without the institution of an elaborate program mechanism.

IV. Summary

Our housing approach described above is set forth in outline and matrix forms in Appendix A and B. Within this framework, let us now summarize the roles of the federal, state and local governments in providing housing.

The federal government: The federal government must always have a programmatic and financial role in the subsidization of housing, and must establish national policies and goals needed to insure decent, safe and sanitary housing for every American. Through Section 8 certificates, the continuation of the rural Title V, Section 202 and public housing programs, as well as the new HBG program, the federal government should financially assist the development of new housing and the ability of tenants to pay for decent existing housing. Although not addressed in this paper on low income housing, the federal government should maintain a credit support system through the Federal Housing Administration, the Government National Mortgage Association (including its tandem plans when necessary), as well as providing tax incentives through the Low Income Housing Tax Credit to stimulate housing.

State governments: We strongly encourage the recent trend towards greater housing concern and innovative housing assistance programs by the states. We would envision that as state governments now administer the CDBG in small cities and rural areas, that it likewise administers the housing block grant for such communities. Also, the state governments should continue their very useful role in the financing of housing through the state housing finance agencies. Finally, state governments are in a particularly unique provision to provide technical assistance to localities and non-profits through training, consulting services, social service coordination and housing planning.

Local governments and Public Housing Authorities: We believe that the public housing authority generally should administer the Section 8 certificate program. The city, or if delegated by the city, the local housing authority should administer the new housing block grant program. (Some cities may wish to delegate this authority to a housing development corporation or community development corporation.) Local governments should exercise its control over zoning permits in such a manner to increase affordable housing opportunities. Local government should allocate a part of their local revenue to augment the HBG program, along with providing technical assistance to private and non-profit organizations.

In this report, we attempted to outline today's housing needs and the tools to meet them. We have purposefully dealt with broad concepts instead of program specifics. Once a broad approach has been accepted, we stand ready to work with the Committee and its staff as we have done for the past fifteen years to translate these broad concepts into a new housing legislation which will allow us to reach the illusive goal of a decent home and a suitable living environment for every American.

NLHA
Appendix A

PROGRAMS REQUIRED TO

	Section 8 Certificates	Cate
A. Special Housing/ Service Needy Handicapped and Elderly	x	Sect
B. Special Housing Needy		
1. Farmworkers		Sect
2. Indians		Publ
3. Homeless		Publ and
4. Very Large Families	If Stock Available	Publ
C. Rural Poor	If Stock Available	Sect
D. Very Low Income Urban Poor	If Stock Available	Publ Sec
E. Elderly Poor	x	Sect Ho
F. Working Poor	x	Sect Pu
G. Moderate Income	x	

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PROGRAMS REQUIRED TO MEET HOUSING NEED

Certificates	Categorial Program	Housing Block Grant
:	Section 202	New Construction/ Scattered Sites
	Section 514/516	
	Public Housing	
tock ilable	Public Housing/SRO and Rehab	Funding to Non-Profits
	Public Housing	
tock ilable	Section 515	New Construction When Necessary
tock ilable	Public Housing/ Section 8 Mod Rehab	Selective New Construction in Tight Markets - Dispersed
x	Section 202/Public Housing	Spot New Construction
x	Section 8 Mod Rehab/ Public Housing	New Construction - Mixed Income Development
x		New Construction - Mixed Income Development
		First-Time Homebuyer Loans
		Convertible Certificates - Rental Subsidy/Mortgage Payment

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NLHA Appendix B

I. Method/Programs Required to Meet Housing Needs

- A. Special Housing/Service Needy (Handicapped/Frail Elderly)
    1. Section 8 Existing and Section 202
    2. New Construction (scattered sites) through Housing Block Grant
- B. Special Housing Needy
    1. Farmworkers: Sections 514/516 through FmHA
    2. Indians: Public Housing Program
    3. Homeless: Non-Profit/Public Housing emphasis on Single Room Occupany (SRO) and Rehab
    4. Very Large Families: Section 8 Existing and Public Housing
- C. Rural Poor
    1. Section 515 Projects
    2. New Construction through Housing Block Grant
    3. Section 8 Certificates, if stock available
- D. Very Low Income Urban Poor
    1. Section 8 Certificates and Moderate Rehab
    2. Selective New Construction through Housing Block Grant in Tight Markets - Dispersed
    3. Public Housing
- E. Elderly Poor
    1. Section 202
    2. Section 8 Certificates
    3. Spot New Construction funded by Housing Block Grant
    4. Public Housing
- F. Working Poor
    1. Section 8 Certificates and Moderate Rehab
    2. New Construction - In Mixed Income Development funded by Housing Block Grant
    3. Public Housing
- G. Moderate Income
    1. New Construction - In Mixed Income Development funded by Housing Block Grant
    2. Section 8 Certificates
    3. First-time Homebuyer Loans through Housing Block Grant
    4. Convertible Certificate funded by Housing Block Grant - Rental Subsidy/Mortgage Payment
    5. Tax Deduction for Rent

National
Low Income Housing Coalition

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Hon. Edward W. Brooke, *Honorary Chairperson*

Barry Zigas, *President*

October 5, 1987

Hon. Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
U.S. Senate
Washington, D.C. 20510

Dear Sen. Cranston:

On behalf of the Board of Directors of the National Low Income Housing Coalition, it is my pleasure to submit to you the enclosed materials as you requested in your letter to me. Enclosed you will find a copy of the Basic Principles adopted by our organization to guide the development of a decent national housing policy. These Basic Principles were adopted after a lengthy process of consultation and review by grass-roots housing consumers, advocates, nonprofit agencies providing housing services to low income consumers, and others who are members of the National Low Income Housing Coalition. They represent our best attempt to provide a framework around which a national housing policy can be constructed. These principles are currently being reviewed by our Board and membership, and there may be changes adopted in the next several months as our process continues. If there are, I will forward a revised copy to you immediately. In the meantime, I recommend these principles to you strongly.

The NLIHC is also in the midst of a policy development process which we hope will lead to draft legislation for your consideration to create a Community-Based Housing Supply program. Such a program also grew out of our grass-roots policy making process and would provide direct funding for housing preservation and development activities carried out by community-based nonprofit organizations. Such organizations have in recent years grown substantially in capacity and sophistication. In many communities, such groups are the only ones carrying out effective programs to create and preserve affordable housing for low and very low income persons. We had hoped to have a finished draft of this legislation prepared in time for today's deadline. We were not able to do so. But I will forward the results of this lengthy process to you as soon as it is finished later this month.

Thank you for the opportunity to offer our views for your consideration. As your work progresses, we look forward to working closely with you to craft legislation which will fulfill the principles outlined in the attached materials. Thank you for your consideration.

Sincerely,

Barry Zigas
President

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LOW INCOME HOUSING POLICY STATEMENT[1]

BASIC PRINCIPLES

Decent, safe and sanitary shelter is one of the bare necessities of life. All people share the basic human right to live in dignity, safety, and security. The federal government bears the fundamental responsibility for ensuring that the opportunity to obtain decent, affordable housing with a choice of location is available to all in our society -- regardless of race, creed, age, family composition, or income level. All housing programs should be responsive to consumer, tenant, neighborhood and community needs and preferences, and accessible to all without regard to race, creed, gender, family composition or handicap.

The federal government has the responsibility and the resources to ensure that adequate housing for low income people is provided throughout the United States: in inner cities, in suburbs, in small towns and rural areas. Only the federal government can mount programs which provide uniform standards and protections, while leaving flexibility to states, local governments, and other institutions, including the private sector, to adapt them to the range of housing needs which exist in our country.

Federal housing expenditures should give highest priority to those with the most critical housing needs: people living in inadequate housing; people displaced or threatened by displacement, from whatever cause; and people whose incomes are too low to bear the high cost of decent shelter.

These basic principles are fundamental and should undergird all housing policy and program development. Moreover, there is no single approach which, in and of itself, will deal with our low income housing problems. Making decent housing a reality will require a range of policies and programs. In our view, the eight elements of this policy (set forth below) are all essential. They are not alternatives, and none can be omitted. We recognize that there are, in addition, special housing needs which must be addressed: housing for homeless people, for elderly people, for people with disabilities, for special groups such as farmworkers and Indians. We believe that specific approaches to assure that those people's needs are met should be developed within the framework of our policy.

> Explanation. After close to half a century of housing assistance, there are still millions of people who need it. For every very-low income renter household living in subsidized housing, there are three others who need it, who probably want it, and who can't get it -- 7.5 million households in all. There are another 10 million owner households in the very-low-income category: households with incomes below 50% of median. Furthermore, we have barely begun to root out housing discrimination.
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> Moreover, despite the accomplishments of federal housing programs, which now provide shelter to one renter household in 10, there is a growing low income housing crisis. Homelessness is increasing dramatically. Housing quality, after decades of improvement, has begun to decline. Between 1970

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[1] This statement was adopted by the National Low Income Housing Coalition after a long process of review and comment, beginning with distribution of a draft to our membership in August 1983, with requests for additional ideas and comments. The statement was revised several times to reflect the views of our members and board and, finally, was amended and adopted by the delegates to the Second National Low Income Housing Conference in June 1984. It was annotated with more recent figures by Cushing N. Dolbeare in December 1985.

and 1980, low rent units (under $125 per month) were disappearing from the inventory at the rate of almost 500,000 units annually, because of rent increases, conversions, and demolitions.

Meanwhile, the federal government has all but abandoned its historic commitment to "a decent home and a suitable living environment for every American family" as low income housing programs have been slashed more deeply than any other major federal activity. The number of additional subsidized units provided under all HUD and Farmers Home Administration programs has dropped from 321,000 in 1981 to fewer than 154,000 in 1983.[2]

It has long been recognized that there is simply no way the private sector, unaided and on its own, can provide affordable housing for very low income people. Nor do state and local governments, without federal aid, have the resources to meet the housing needs of their low income residents. Therefore, the primary responsibility for assuring adequate low income housing must rest with the federal government. This responsibility should be carried out in ways that are appropriate to the diversity of housing needs and housing markets, and which elicit the involvement and support of state and local government and a broad range of actors in the private sector.

1. MAKE HOUSING ASSISTANCE AN ENTITLEMENT FOR ALL WHO NEED IT

An adequately funded entitlement, income-based housing assistance program is essential to enable low income people to obtain decent housing at costs they can afford. We propose housing allowances recognizing that they must be coupled both with increases in the housing supply and with changes in housing ownership and management, which we address in other portions of this statement.

No one should have to go hungry or do without other essentials because their housing costs too much. No one should have to live in a rural shack or rundown urban unit because decent housing costs more than they can afford.

The federal government should provide housing assistance to all households who cannot otherwise afford decent housing. The assistance should be available to both renters and owners, in comparable amounts based on need.

The amount should be sufficient to cover the difference between what the household can afford and the cost, including utilities and other housing-related expenses, of decent housing of the size they need in their chosen housing market area. The program should be designed both to provide adequate subsidies and to avoid windfalls to landlords. Occupied housing must meet minimum quality standards.

> Explanation. Housing allowances, in and of themselves, have negligible impact on the supply of decent housing. Therefore, a housing allowance program available to all eligible households will heighten the need for low income housing supply programs. Nevertheless, housing allowances must be a major element in any comprehensive approach to dealing with low income

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[2] The HUD appropriation for FY 1987 will subsidize an additional 81,500 households, most of them with vouchers; another 58,000 households will be subsidized through Farmer's Home Administration rural housing programs, for a total of 139,500.

housing needs. Where the problem is income alone, as with households occupying standard units at unaffordable rents, allowances are clearly the answer.

One problem that has plagued previous efforts to subsidize housing for low income people is that often their incomes are so low that they can't even afford operating costs (maintenence, utilities, taxes, etc), so subsidies for construction or financing have been inadequate. By assuring that all households have sufficient funds at least to cover operating costs, a housing allowance program will make it far easier to mount successful approaches to preserving, building, or rehabilitating housing for low income people.

The basic problem of very low income households is that they can't pay what decent housing costs. The vast majority of households paying more than half their incomes for shelter can afford less than $125 per month!

In 1981 the Annual Housing Survey reported 5.4 million renter households and 2.4 million owners who paid more than half their incomes for shelter; their median incomes were below $6,000. Most of these households lived in standard housing but had to forego other basic necessities in order to pay for it.[3]

Another 9.0 million renter households and 8.1 million owners paid between one quarter and one half their incomes for shelter. Except for owners with mortgages, their median incomes were less than $12,000.[4]

Rough estimates of the cost of a housing allowance program such as we propose range from $10 to $20 billion annually. This is about half the cost of housing subsidies provided to the wealthy through the tax code, primarily through the deductibility of mortgage interest and property taxes from federal income tax. (See Tax Reform, below.)

The National Low Income Housing Coalition is now developing specific proposals for a housing allowance program, recognizing that there are problems in both assuring decent quality and avoiding windfalls to owners.

2. PROVIDE AN ADEQUATE AND AFFORDABLE SUPPLY OF HOUSING

Federal housing programs should support the preservation, construction or rehabilitation of an adequate and affordable supply of housing to meet the needs of low-income people and to maintain the quality and viability of neighborhoods. Until low income housing needs are met, at least 750,000 additional units of assisted housing for low income people should be added to the inventory each year.

Our housing stock must be adequate overall to meet the growing and changing needs of our people. Housing for low income people must be supplied in ways that minimize construction, financing, and occupancy costs, while enhancing neighborhood viability and enlarging housing choice. Supply needs include rehabilitating substandard units and building new ones, as well as preserving the existing low income housing stock. Adequate attention must be paid to changing needs and preferences. Provisions should be made for the use of shared housing, single-room occupancy and other nontraditional types of housing, such as manufactured homes and other nonconventional construction, on the same basis as other housing provided it meets health and safety standards.

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[3] The 1983 AHS figures show a dramatic increase in these figures. By 1983, 6.3 million renters and 3.6 million owners were paying more than half their incomes for shelter. Moreover, the median income of households in this group had not risen significantly since 1981.

[4] By 1983, these numbers had increased to 8.7 million renter households and 8.7 million owners.

No one housing program or approach can adequately deal with the range and diversity of our housing needs. Current federal housing supply efforts -- including public housing, Section 8, Farmer's Home Administration rural programs and the rental development grant program enacted in 1983 -- should be continued, improved and expanded, while exploration continues for approaches that will be better targeted, less costly and more responsive to neighborhood and resident needs. The direct and indirect costs of providing lower-income housing should be reduced by eliminating excess profits, simplifying delivery, placing greater reliance on grants rather than reducing interest costs of long-term loans, and offering credit selectively to provide lower interest rates for housing finance.

The specific needs to be met and the mix between preservation, rehabilitation, and new construction should be determined at the local or state level, subject to federal guidelines and review to assure that the full range of housing needs is considered and adequate opportunity for mobility is provided.

To minimize costs and create greater responsiveness, federal incentives should be provided for reviews of local construction, fire, housing, zoning and subdivision requirements. Manufactured homes and other forms of nontraditional housing that meet basic health and safety standards should not be discriminated against by land use regulations or tax policy and should be eligible for federal assistance. Traditional building materials, such as adobe, and new materials that promise lower costs or greater durability without compromising health and safety standards should be permitted.

Explanation. Almost half a century of providing subsidized housing has produced fewer than four million new or rehabilitated units of housing restricted to lower income occupancy under all urban and rural housing programs.

The long-run costs of low income housing can best be kept down by providing an increasing stock of units under public, nonprofit, or occupant ownership and thus decreasing the adverse impact of speculation and inflation on housing. Thus, low income housing supply programs are an essential component of an overall policy.

The proposal that at least 750,000 affordable units be provided each year for low income people sets a specific goal that will enable low income people to catch up. This would, over a 10-year period, provide housing for the 7.5 million very-low-income renter households for whom subsidized housing is now unavailable.

3. RETAIN AND IMPROVE THE PRESENT HOUSING STOCK TO PROVIDE DECENT HOUSING FO INCOME PEOPLE.

Our existing housing stock is a valuable national resource that must not be allowed to deteriorate. The ownership of housing should be regarded as a public trust, and all owners should have the responsibility to keep their units occupied and in decent condition. The federal government has a special responsibility to see that units which it owns or assists are maintained in viable condition and retained for low income occupancy.

Preserving and making best use of our stock of existing housing is key both to the provision of decent, affordable housing for low income people and to viable neighborhoods. The basic responsibility for keeping housing occupied and in decent condition rests with its owners.

Because housing is a basic human need, and because the use and condition of housing has a large impact on our neighborhoods and communities, we believe that the ownership of housing carries with it a public trust, which should be reflected in public policy and laws. The responsibility to keep housing in decent condition is already recognized in local housing codes and code enforcement programs. We believe that there should be a similar responsibility to keep housing occupied, provided there are those who are ready and willing to live in it. This should be a basic goal of public policy at the federal, state and local levels. Where these policies fail, we support organized, responsible squatting efforts to rehabilitate vacant and abandoned properties and return them to use.

The current stock of federally assisted and insured housing now occupied by low and moderate income people must be retained for their use, with the necessary operating subsidies and modernization or improvement funds provided to keep it in viable condition and fully occupied. (This includes all present public housing, HUD-assisted, HUD-insured and HUD-held units, as well as units assisted by the Farmers Home Administration or repossessed by the Veterans Administration.)

So long as the need is there, every housing unit that the federal government subsidizes or takes possession of through delinquency or foreclosure should be made available, with adequate subsidies, for low income people. The federal government should also encourage state and local governments to do the same with housing that comes into their possession or control.

> Explanation. Over the past several years, we have had a steady loss of low rent units from the housing stock. Much of this loss has been the direct or indirect result of federal policies, including the provisions of the tax code that provide strong incentives for sale or conversion of rental housing to higher income use. In addition to these private sector units, we are threatened with the loss of thousands of units from the subsidized stock through demolition, sale, conversion or other disposition of projects. This must be halted.
>
> The least expensive way to provide decent, affordable housing is to maintain our present housing stock in good condition, and, where it is already subsidized, to retain it for low income use. It is penny-wise and pound-foolish to skimp on needed subsidies or assistance for operations, maintenance and modernization, or to permit low income units to be demolished or converted to higher income use.
>
> Too often, low income housing programs have been administered with more emphasis on restraining spending than on providing decent homes and living environments. Too often, the federal assistance provided has been inadequate to operate or maintain the units. Too often, tenants have been blamed for this state of affairs. Too often, subsidized housing developments have been regarded as problems, not as the resource needed to meet

critical housing needs. In these times of low income housing crisis, no unit that can be used by low income people should be abandoned.

4. PROVIDE RESIDENT CONTROL OF HOUSING THROUGH A STRONG ROLE FOR TENANT ORGANIZATIONS, LIMITED EQUITY COOPERATIVES, COMMUNITY-BASED HOUSING GROUPS, HOME OWNERSHIP.

Housing is an essential part of the basic fabric of our communities and neighborhoods. To a large degree, our housing affects the nature of our family and community life. Control of one's housing provides a stake and a sense of security that can be provided in no other way. Therefore, federal housing programs should foster a variety of approaches to resident control over housing, including genuine tenant participation in decision-making, ownership of housing by community-based, nonprofit organizations, limited equity cooperatives, and individual home ownership.

Community based, nonprofit organizations and limited equity cooperatives should have a major role in the provision of housing. Federal assistance should be provided to these organizations to enable them to meet the broad range of housing needs at the neighborhood and community level.

Federal housing programs should be structured to directly support and assist community-based nonprofit organizations and limited equity cooperatives to become major housing providers. This requires access to financing, including subsidies where necessary, and technical assistance and outreach, particularly to minority communities, and organizational support and funding. This will require a long-range approach with strong emphasis on capacity-building, particularly in rural areas and for organizations in low income communities without prior experience in producing or managing housing.

Tenant participation in decision-making on management and operations should be required in all assisted housing programs. This includes funding for tenant organizations and tenant-elected, voting representatives on boards of housing authorities and other institutions owning or operating subsidized housing.

All tenants in federally assisted housing should have at least the following minimum protections against unfair treatment: (a) prohibition of unconscionable lease terms and utility shut-offs; (b) eviction only for just cause; (c) information on their rights and access to fair procedures for settling grievences; (d) reasonable landlord rules and requirements; and (e) warranty of habitability and remedies of repair-and-deduct, rent withholding, and rent abatement upon breach of the warranty. State and local governments should adopt comperable standards for private, nonassisted housing.

Low income households should not be confined solely to the rental housing stock. New home ownership programs, in both rural and urban areas, are needed to provide this option. Housing subsidies covering utilities, taxes, and maintenance, as well as assistance in downpayments, closing costs and low interest or deferred payment mortgages, should be extended to home owners. Adequate counseling services should be available.

Low income families who now own or are buying their homes should receive affirmative government assistance to maintain themselves in their homes. Such assistance should include bilingual information on programs and assistance available from lenders and the government; emergency mortgage and foreclosure relief; property tax relief based on income; assistance with utility costs, repairs, and maintenance; weatherization and retrofitting.

> Explanation. A major thrust of our policy is to create more responsive institutions and to transform the production and management of low income housing, so that control is in the hands of residents. This cannot be done overnight and is best approached by enabling limited-equity cooperatives and nonprofit organizations to build their capacity to the point where they become the major providers and managers of housing occupied by low income people, as well as by supporting more traditional forms of home ownership.
>
> This emphasis is to put control where we believe it belongs, to provide mechanisms for accountability, and to keep long-run costs down.
>
> The recommendations on tenant participation are to assure control and accountability. They are phrased to give tenants themselves the choice of how deeply they wish to be involved in day-to-day management decisions.

5. END DISPLACEMENT OF LOW INCOME PEOPLE

Displacement of low-income people by either public or private action or inaction should be ended. Under no circumstances should people be forced to leave a neighborhood where they wish to remain. When displacement from a particular unit cannot be avoided, alternative housing should be provided nearby, in the same block whenever possible. Until this objective is achieved, federal policies and programs should provide immediate and adequate protection for people threatened by displacement.

National policy should focus on the prevention of displacement by private as well as public actions. Housing and community and economic development programs should be designed and carried out so as to benefit low-income people and their neighborhoods. Federal programs should, as a condition of participation, require local public officials to carry out the policy and, if displacement nevertheless occurs, to replace any low income units lost on a one-for-one basis and cover all costs of moving. Effective means must be developed for carrying out this responsibility.

The antidisplacement efforts of neighborhood organizations, such as community development corporations, community credit unions, neighborhood planning, and neighborhood counselling should be aggressively supported by all levels of government and the private sector.

Condominium conversions should not be allowed to displace tenants or reduce the stock of low- or moderate-income housing. All conversions should require the approval of a majority of the building's tenants, and tenants in units subject to conversion should have the choice of life tenancy at limited rents or the first option to buy their unit and 180 days to decide. This will require the development of new programs of housing assistance for continued rental or purchase where tenants have limited means. The special problems of displacement from mobile home parks, through conversions or for other reasons, must be addressed.

Low income conversion options, such as limited equity cooperatives or subsidies for condominium ownership, should be developed, and adequate technical assistance and funds for low income purchase and rehabilitation provided.

Explanation. Displacement is a major threat to low income people. Some displacement occurs through direct public taking. More occurs because of private activity, generally stimulated by public efforts such as tax incentives or publicly supported revitalization activities. In other neighborhoods, displacement is caused by neglect and government inaction, or the writing off of neighborhoods as no longer viable and the withdrawal of services from them. A particular, often-unrecognized problem is displacement from mobile home parks, whose owners wish to convert to other use; frequently, because of exclusionary policies, there are no alternative mobile home sites in the communities where these parks are located.

It has been estimated that each year in this country, displacement afflicts some 2.5 million people and 500,000 low rent units are lost.

In addition to conditioning federal assistance on adequate state and local efforts to prevent displacement, the federal government can do three things to deal with this situation: (1) it can assure that its own funds and programs are not contributing to displacement; (2) it can see that people are not displaced from federally owned or controlled housing; and (3) it can assure that replacement housing is provided for people displaced by other causes on a one-for-one basis at comparable rents.

6. STRENGTHEN AND ENFORCE FAIR HOUSING LAWS AND EQUAL OPPORTUNITY REQUIREMENTS

To protect against discrimination in housing, the present federal fair housing law must be aggressively enforced and strengthened to provide for effective administrative enforcement procedures, and expanded to protect persons with disabilities and families with children. Housing choices for low income families must be geographically expanded, especially in relationship to job opportunities.

Enforcement of the existing law (Title VI of the Civil Rights Act of 1964 and Title VIII of the 1968 Civil Rights Act) by HUD, FmHA, VA and the federal financial regulatory agencies should be strengthened. HUD should issue and enforce substantive regulations implementing Title VIII.

FmHA and HUD should adopt affirmative policies to prevent any discrimination against families with children in federally assisted housing. Federal policies and programs should provide an adequate support of housing for large, low income families.

Low income households must be provided with a wide range of geographic choice for decent and affordable housing. This is particularly true where the decentralization of jobs has made many employment opportunities inaccessible to low income persons. Communities should be responsible for seeing that housing opportunities are provided for the people who work there. To help keep older areas viable, there is a concurrent responsibility to provide job opportunities where people now live.

A condition for provision of housing or community development funds to state or local governments should be a fair housing plan with the following federally approved minimum elements: (1) a plan for enforcing a fair housing law at least equivalent to the federal law; (2) a plan for the identification and continued review of barriers to fair housing, including a review of zoning and land use regulations; (3) a strategy for meeting fair housing needs, including a review of the human rights impact of all major development activities; (4) a means for outreach, education and involvement of all relevant sectors of the community in promoting fair housing policy, and (5) a plan for inter-jurisdictional coordination of fair housing activities.

Explanation. Despite passage of the fair housing law almost a generation ago, discrimination is still a fact of life in housing markets. In large part this is because of the absence of effective enforcement provisions in the federal fair housing law. In addition, the law does not now cover discrimination against families with children or persons with disabilities. We therefore join in supporting a stronger federal fair housing law, as proposed by the Mathias-Kennedy bill.[5]

This is an important first step, but additional measures will be needed to root out housing discrimination. Positive action is necessary to link responsibility to provide low income housing with the location of jobs and opportunities for employment and education. State, local, and regional planning must include consideration of fair housing impact and measures to overcome discrimination and widen housing opportunities.

7. REFORM FEDERAL TAX LAWS TO REFLECT PRIORITY FOR AIDING PEOPLE WITH THE GREATEST HOUSING NEEDS

The enormously costly and inefficient housing subsidies that are now provided through the tax code should be changed to direct them where they are needed and productive. Mortgage interest and property tax deductions should be converted to tax credits, and the amount of these credits should be capped at a level which will protect low and middle income home owners while curtailing subsidies to people who do not need them to obtain affordable housing. The additional revenue obtained by doing this should be used to meet low and middle income housing needs.

As soon as adequate supply and financing programs are put in place, the special tax subsidies and preferences provided to investors through the tax code should be ended. Until then, they are needed to supplement the pitifully low level of federal, state and local housing assistance programs and to make most of these programs viable, but they should be as tightly targeted as possible, and the targeting provisions should be rigorously enforced. Cooperatives should be eligible for tax subsidies on the same basis as rental housing. The tax subsidies that are now provided for syndication of rental housing developments should be made refundable (payable directly in cash where no taxes are owed to offset the deductions), so that nonprofit and community based housing groups can get the full amount of the federal subsidy, without having to split it with investors who otherwise have no interest in the project.

Federal tax laws, which now force many investors in rental housing to sell or convert, should be amended to remove these incentives and discourage displacement. Pending such change, sales to tenants or tenant organizations should not be subject to discriminatory, differential tax provisions. Where housing will be sold to tenants or nonprofits approved by tenants, prenegotiated prices should be permitted.

Explanation. Each tax dollar that the federal government does not receive because of deductions or preferences in the tax code has just as much impact on the deficit as each dollar of direct spending. Viewed in this context, most federal housing expenditures are tax expenditures. Most middle income home owners count on these subsidies. But these owners receive less than one-third of the total subsidies. Meanwhile, low income owners and renters are excluded from housing assistance, and the bulk of our tax expenditures for housing goes to people at the top of the income distribution. (The cost of these subsidies is more than four times the amount appropriated for low income housing for fiscal 1984.)[6]

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[5] This bill will need to be reintroduced in the 100th Congress.

1984 housing-related tax expenditures are estimated by the Congressional Budget Office at about $50 billion. About 75% of this amount goes to the top 15% of the income distribution. Cutting in half the amount received by the rich, and leaving the rest unchanged, would increase federal revenues by enough to cover the cost of all our other proposals.

There are clear indications that overhaul of federal tax laws will be a major concern in coming years. Because of this, and because of the great current importance of tax provisions to the production and management of housing, it is critical that housing advocates participate in the process, and that tax reforms be adopted which protect the needs of low and middle income people, while avoiding windfalls and inefficient subsidies.

8. PROVIDE THE FINANCING NEEDED TO PRESERVE, BUILD, AND REHABILITATE HOUSING.

Monetary and credit policies should be shaped to provide reasonable financing costs for housing and limit credit-related fluctuations which increase the costs, prices, and rents of all housing. Affordable property insurance and affordable financing for the purchase, renovation and improvement of housing, should be available in all neighborhoods, without discrimination of any kind.

Our nation's housing needs cannot be met if financing is unavailable or unaffordable. The needed flow of credit into housing must be maintained, as must institutions capable of providing it at the community and neighborhood level. Housing should be protected, through national credit allocation or other mechanisms, from the impact of federal monetary and credit policies. Credit institutions, such as savings and loan associations, established primarily to provide financing for housing, should not be permitted to abandon this special purpose. We support the establishment of an explicit housing finance mandate for thrift institutions to help assure the flow of housing credit.

Federal policy should encourage a continued supply of housing loans that do not expose homeowners to excessive interest rate risk or refinancing uncertainty. Consumer protections for borrowers who obtain adjustable rate mortgages and continued availability of standard fixed rate mortgages for those borrowers who desire them should be guaranteed by legislation.

Federal oversight of the obligation of all depository institutions (savings and loans, savings banks, and commercial banks) to serve the housing credit needs of their entire community, including low and moderate income areas, older urban neighborhoods, rural areas, and minority and female-headed households, should be strengthened, and the Community Reinvestment Act should be vigorously enforced.

---

[6] By FY 1987, the cost of housing-related tax subsidies was estimated by OMB at $48.1 billion, while assisted housing outlays of $12.2 billion were proposed in the Administration's budget.

Beyond these general approaches, aimed at creating a climate for steady production of unsubsidized housing, a variety of special mechanisms are needed to support the production and rehabilitation of housing for low income people. We believe new institutions are needed, such as housing trust funds or a national housing bank, to provide community based groups and limited equity cooperatives with financing for low income housing, including, as appropriate, grants, interest-free or low interest loans, graduated interest loans or whatever financing is required to produce the housing needed. These funds could be used to supplement or leverage funds from other sources, including state, local, and private funds.

Foreclosure relief should be provided to owners threatened with loss of their homes for reasons beyond their control as well as for tenants threatened with displacement because of foreclosures on owners.

> Explanation. Housing has long been peculiarly vulnerable to monetary policy and fluctuations in the cost of credit. The problem of obtaining adequate credit affects much of the housing market, but is particularly critical to efforts to provide low income housing. Federal deregulation has undermined the role of savings and loan institutions, long the major source of housing credit, as a primary source of funds for housing. While these institutions may need added asset flexibility because of decontrol of interest rates on deposits, there is no reason to permit them to abandon their role as housing specialists. A federal housing mandate is required to enable thrift institutions to resist pressures to expand into commercial and other short term lending.
>
> During the credit crunch of the past several years, the mortgage market shifted rapidly to adjustable rate and short term balloon mortgages that shift considerable risks of higher interest rates and refinancing uncertainty to home purchasers. Legislation is needed to assure a continuing supply of fixed-rate mortgages and to minimize the risks to the consumer of adjustable rate or balloon mortgages. Continued oversight is also needed to assure that the mandate to serve community needs is followed in the face of pressures on financial institutions to orient their services toward upper income and large depositors.
>
> Our housing needs are too important to leave the availability of funds to the whim of the marketplace. We need a continued, positive commitment by the federal government to do what is necessary to see that credit for housing is available on reasonable terms.
>
> Even where programs are in place, financing is often an almost-impossible barrier, particularly to community-based groups. For this reason, the Coalition is actively exploring new financing mechanisms, which can provide needed funds on an affordable basis.

* * * * *

NATIONAL
LOW INCOME
HOUSING
PRESERVATION
COMMISSION

October 5, 1987

The Honorable Alan Cranston
Chairman
Subcommittee on Housing and
Urban Affairs
United States Senate
112 SHOB
Washington, D.C. 20510

Dear Senator Cranston:

I wanted to respond to your letter requesting ideas for views on the nation's housing policy by October 5, on behalf of the National Low Income Housing Preservation Commission.

The Commission's work involves extensive original field data collection and the construction of a computer model containing the descriptions of the physical, financial and market characteristics of a representative sample of individual 221 (d) (3) and 236 projects. Our analytical work seeks to determine the present market value of projects against which to evaluate the options which owners have to dispose of the property when their use restrictions expire, continue the project as low income, or permit slow deterioration. Once the likely range of options is assembled, various interventions can be evaluated based on their ability to influence the project's continued viability as low income housing. The Commission intends to use this data to determine the cost of various approaches and to recommend those it believes to be most effective in preserving this stock in the most cost effective manner for the greatest number of low income people. The Commission expects that its findings will be presented to the House and Senate Housing Subcommittees in early 1988.

For inclusion in your October 5 report, I would like to present the Commission's draft outline for the contents of its final report. It is as follows:

I. Chapter One: Risk of Loss
   - An overview, with a section on estimated total costs for physical improvements.

- II. Chapter Two: Preservation Analysis of the Older Assisted Housing Stock
  - Features 236, 221 (d) (3) BMIR projects
- III. Chapter Three: Preservation Remedies
  - Problem definition
  - Leading options
  - Matching remedies with conversion values
- IV. Chapter Four: Implementation Steps
  - Federal leadership role, development of a preservation policy
  - HUD or other negotiating entity
  - State and local role
  - Moratorium
  - Development of non-profit capacity
  - Tax legislation
  - Budget sources
- V. Technical Appendix

The Commission looks forward to presenting its findings to the House and Senate Housing Subcommittees and to the opportunity to discuss ways to continue federal policies which help provide needed housing for millions of low income citizens.

Sincerely,

Linda P. Gallagher

Linda Parke Gallagher
Executive Director

NMHC
NATIONAL MULTI HOUSING COUNCIL
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October 5, 1987

Senator Alan Cranston
United States Senate
Banking, Housing & Urban Affairs Committee
Subcommittee on Housing & Urban Affairs
Senate Hart Office Building
Room 112
Washington, D.C. 20510

Senator Alphonse D'Amato
United States Senate
Banking, Housing & Urban Affairs Committee
Subcommittee on Housing & Urban Affairs
Senate Hart Office Building
Room 520
Washington, D.C. 20510

Dear Senator Cranston and Senator D'Amato:

On behalf of the National Multi Housing Council, I wish to respond to your letter of July 22, requesting comment on the formation of a new and much-needed national housing policy. The National Multi Housing Council ("NMHC") shares your interest in developing a responsible and effective housing policy and appreciates this opportunity to provide its views on the content of such a policy.

Based in Washington, D.C., NMHC represents the interests of the largest and most prestigious organizations in the country participating in the multifamily rental housing industry. NMHC's members are engaged in all aspects of the development and operation of rental housing, including the building, ownership, financing, management and conversion to condominium of such properties. Together, its members are responsible for hundreds of thousands of rental units. Accordingly, the following comments focus principally on proposed policy for the rental housing market.

The central and critical problem facing the U.S. housing market today -- and, in particular, the rental housing market -- is, in certain areas, the inadequacy of housing supply and the inability of the free market to respond to demand. In NMHC's view, there is no more serious and perverse barrier to an expanded supply of rental housing in areas of shortage than local rent control laws. As described below, these laws, which vary from jurisdiction to jurisdiction, impair the operation of both the marketplace and the numerous existing Federally-sponsored housing programs.

NMHC therefore believes that Federal preemption of local rent control laws must be an essential and central component of any new housing policy. The very real and important goal of ensuring adequate housing for low-income tenants should be accomplished directly through various of the proven income transfer and like subsidy programs. At the same time, a new housing policy must ensure the ability of the private market to meet general market demand. Paradoxically, rent controls generally are imposed in the very circumstances in which the need for free market activity to alleviate housing shortages is most urgent.

A. *The Economics of Rent Control*

A recent editorial in the New York Times calling for an end to rent control in New York succinctly describes its failures as a housing policy:

> There's probably nothing that distorts a city worse than rent regulation. It accelerates the abandonment of marginal buildings, deters the improvement of good ones and creates wonderous windfalls for the middle class -- all the while harming those it was meant to help, the poor.[1]

That rent control is an ineffective and often counterproductive housing policy no longer is open to serious question. Economists who have researched the effects of rent control are virtually unanimous in their condemnation of it as bad housing policy.[2] They have found that rent control, irrespective of the criteria used to restrict rents, leads to undermaintenance and abandonment of existing rental housing and a reduction in investment in and construction of new rental housing. Moreover, these effects are most detrimental to the very low-income tenants, the very population rent controls ostensibly are intended to benefit.

---

[1] N.Y. Times, May 12, 1987, at A30 ("End Rent Controls").

[2] *See* Frey, "Consensus and Dissension Among Economists," 74 Am. Econ. Rev. 986, 987-91 (1984); *Rent Control, Myths and Realities: International Evidence of the Effects of Rent Control in Six Countries* (hereinafter, "Rent Control, Myths and Realities") (W. Block & E. Olsen ed. 1981); *Resolving the Housing Crisis: Governmental Policy, Decontrol, and the Public Interest* (M. Johnson ed. 1982); C. Baird, "Rent

[Footnote Continued on Next Page]

Criticism of rent control has not been limited to economic conservatives such as Freidrich Hayek and Milton Friedman, both Nobel Laureates in economics,3/ but also has come from prominent liberal economists such as the recently deceased Gunnar Myrdal, also a Nobel Laureate. Dr. Myrdal, who has been described as "an important architect of the Swedish Labor Party's welfare state," had argued that "*[r]ent control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision*."4/

The criticism of rent control is so universally shared by economists that rent control often is cited by textbook writers as a paradigm of the harm governmental interference can have on the operation of a competitive market.5/ In a competitive market, rent will represent the price at which the supply of housing that property owners are able and willing to provide equals the amount tenants are able and willing to purchase. Fluctuations in demand or supply will be met by changes in rents which, over time, induce the market changes necessary to return to equilibrium. If rents in an undersupplied market rise and housing rentals yield profits greater than in other markets,

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Control: The Perennial Folly" (Cato Public Policy Research Monograph No. 2, 1980); P. Salins, *The Ecology of Housing Destruction* (1980); J. Moorhouse, "Optional Housing Maintenance Under Rent Control," 39 Southern Econ. J. 104 (1972); G. Sternlieb, *The Urban Housing Dilemma* (City of New York Housing and Development Admin. 1972).

3/ *See Rent Control, Myths and Realities*, *supra* note 2 pp. 87, 172.

4/ S. Rydenfelt, "The Rise, Fall, and Revival of Swedish Rent Control," *Rent Control, Myths and Realities*, *supra* note 2, at 201, 224 (emphasis added).

5/ *See*, *e.g.*, W. Baumol & A. Blinder, *Economics: Principles and Policy* 64-69 (2d ed. 1982); C. McConnell, *Economics: Principles, Problems and Policies* 715-16 (8th ed. 1981); P. Samuelson, *Economics* 396-97 (11th ed. 1980).

investment capital will flow into residential construction and the supply of rental housing will gradually increase through new construction, rehabilitation and conversion, until the shortage of housing (and any "excess" rents) have been eliminated. Conversely, relatively low rents -- or rents artifically reduced by local governments -- will diminish production of rental housing and induce disinvestment by existing suppliers.

Communities that enact rent control laws generally do so in response to a perceived undersupply of rental housing and "excessive" rents. However, by disturbing the operation of the market, rent control merely exacerbates the problem of housing shortages. By forcing rents below the level established in an unregulated market, rent control reduces the profitability of rental housing, directing investment capital out of the rental market and into other more profitable markets. Communities that impose rent controls suffer often crippling declines in new rental housing construction; they lose existing housing to condominium and cooperative conversions and, in some cases, to abandonment; and the quality of the remaining housing stock deteriorates as owners forego unnecessary maintenance.

Studies have shown, for example, that privately-financed housing construction dropped by 67 percent between 1971 and 1973 in Boston, Massachusetts in response to rent control, while cities without rent control registered a significant increase in such construction.6/ A study of the impact on rent control in Washington, D.C. by the Urban Land Institute similarly found that multifamily housing construction declined by 92.4 percent in response to the imposition of rent control.7/ Similarly, a 1983 survey of major financial institutions, accounting for several hundred billion dollars in investment funds, found that rent control -- and even the threat of rent control -- was the major disincentive to investment in rental housing in California and that fully 56 percent of the survey respondents who had invested in California within the preceding five years were unlikely to consider lending funds in any community with rent controls.8/

6/ G. Sternlieb, The Realities of Rent Control in the Greater Boston Area, Center for Urban Policy Research (Rutgers Univ. 1973).

7/ Urban Land Institute, Projects for Rental Housing Production Under Rent Control: A Case Study of Washington, D.C., Research Report (No. 240).

8/ Bay Area Council Nationwide Survey of Leaders on California's Rental Housing Climate (April 6, 1983).

The evidence of disinvestment in response to rent controls -- often resulting in dramatic declines in the quality of existing rental housing supply -- also is substantial. As one author noted, based on a series of case studies and the accumulation of extensive empirical evidence:

> When it is not feasible or possible to raise rents in proportion to cost increments, the only option open to owners is an internal reallocation of the rent dollar. This usually results in the reduction or deferral of maintenance expenses.[9]

The response of rental property owners to more than 40 years of rent controls can be seen in New York City's dilapidated and deteriorated housing stock. Between 1960 and 1968, the dilapidated housing inventory increased in New York City by 44 percent and the deteriorated stock by 37 percent.[10] By 1968, fully 29 percent of all rent controlled units were dilapidated; this was true of only 8 percent of the uncontrolled rental housing stock.

Further, although the decline in quality and quantity of rental housing is felt by all existing and potential tenants, low-income tenants bear the brunt. To the extent owners are unable to discriminate among potential tenants by price, rent controls place a premium on non-price factors such as creditworthiness, which tends to bias the tenant selection process against low-income tenant groups.

The only beneficiaries of rent control -- aside from owners of uncontrolled rental units whose units become more valuable as the supply of rental stock drops -- are those tenants lucky enough to find themselves in a rent controlled unit. However, even these tenant benefits do not come without a price, for the mobility of these tenants is substantially reduced by their reluctance to part with the rent control subsidy. For those in search of rental housing, the entry costs -- or barriers in the case of many low-income tenants -- such as finder's fees also significantly diminish the net benefits of a controlled rent.

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[9] M. Lett, Rent Control 151 (1976).

[10] E. Achtenberg, "The Social Utility of Rent Control," Housing Urban America 445 (J. Pynoos ed. 1973).

B. Broad-Based Federal and State Opposition to Rent Control Laws

Confronted by overwhelming evidence that rent control does not work, most state and federal government officials long ago rejected rent control as fatally flawed housing policy. For example, after initial flirtations with rent control, both Massachusetts and Florida sharply limited the power of local governments to enact rent control laws. In the District of Columbia, then-Senator Eagleton, an early proponent of rent control and chairman of the Senate District of Columbia Committee (which initially approved rent control for the District), subsequently reported that "[t]he sad truth is that rent controls -- enacted for the best of motives to protect middle- and low-income tenants -- actually work against the very people they were designed to aid."11/

And in California, then-Governor Brown reported that:

> Although the present amount of rent regulation in effect in the California housing market is relatively small, the spectre of future controls is already having an impact. Many builders are shying away from multiple unit construction because of the potential of regulation. . . . Some existing owners of rental units are converting the units into condominiums for sale, partly to avoid the rent regulation problem. Thus, rent controls are not only having a direct impact in a few California communities, but an indirect effect on statewide construction and operation of rental housing.12/

As early as 1976, the Senate Committee on Banking, Housing and Urban Affairs issued a report stating that:

> there is no evidence to show that rent control benefits the poor. Quite to the

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11/ T. Eagleton, "Why Rent Controls Don't Work," Readers Digest (Aug. 1977).

12/ Economic Report of the Governor, 1979, prepared by R. Silberman, Director of Finance, State of California at 75 (March 26, 1979) (emphasis added).

> contrary, it helps a small, privileged group of long-time residents, largely middle class, while driving up rents in uncontrolled units.

"Report on the New York City Loan Program," Committee on Banking, Housing and Urban Affairs, S. Rep. No. 900, 94th Cong., 2d Sess. (1976).

More recently, in 1982 the President's Commission on Housing recommended an end to all rent control, if necessary through Federal and state preemptive legislation. The Commission -- which consisted of economists, housing activists, bankers, builders, realtors, and others from across the political spectrum -- conclusively found "that rent control causes a reduction in the quality of the existing rental stock and discourages investment in new rental property" and is "[t]he most evident interference in the ability of the private market to supply rental housing . . . [in] a substantial percentage of the nation's multi-family housing stock."

C. Federal Preemption of Local Rent Control Laws

That rent control is an ineffective and counterproductive housing policy no longer can be open to serious question. Nonetheless, local rent controls continue to proliferate around the country, severely restricting the quantity and quality of rental housing. More than 200 communites currently impose some form of rent controls. Virtually all are located on the East and West coasts, where rental units make up an important part of the market.

It has become all too obvious that no amount of evidence demonstrating the inefficacy of rent controls -- and indeed the very substantial harm to the poor -- will convince local officials in these communities to abandon uneconomic and irresponsible rent control laws. NMHC therefore believes that the time has come for Federal intervention to prevent the continued impairment of the rental housing market. Preemption of all such local laws should be an essential and central component of any new housing policy.

This result can be accomplished by specifying in any new legislation adopted pursuant to a new Federal housing policy that no state or local government shall adopt any rent control law that interferes with or impedes the goals of Federal housing policy. This fundamental principle of Federal-state relations is implicit in existing law and already has been relied on by the Department of Housing and Urban Development ("HUD") in identifying the circumstances in which the Department will preempt local rent controls.[13] Further, the Federal Home Loan Bank Board has recently considered preemption of local rent control by its rule making source.

Alternatively, to the extent local communities wish to reduce rents to needy tenants (rather than to directly subsidize such tenants, as described below), they should be required as a matter of Federal law and housing policy to compensate affected rental property owners. Only by providing rental property owners with a return on their investment that approximates the market value of their investment can Federal housing policy hope to expand the depleted supply of rental housing.

D. Subsidization of Low-Income Renters

Preemption of local rent control laws will improve both the quantity and quality of rental housing available to the poor. At the same time, a new Federal housing policy should provide -- as it already does in limited form -- for direct financial assistance to low-income tenants unable to afford available housing (both in the current controlled market and in a future uncontrolled market).

The crafting of a new housing policy will require a careful blending of mechanisms (including the preemption of rent controls) to stimulate the supply of housing in areas of shortage with direct financial assistance to needy renters. Over time, the expansion of the rental housing supply in such areas will lead to a decline in rent levels. In the interim, financial assistance to the needy can most efficiently and economically be provided through direct subsidy programs, including income transfers under existing law.

---

[13] In preempting local rent controls, HUD has recognized that limiting the "upside" to investing in rental property enhances the possibility that such rental income will not be sufficient to cover the costs of operating and maintaining a rental property and, consequently, that mortgage loans to owner/mortgagers will be "bad mortgages." HUD regulations specify that:

> HUD will preempt the regulation of rents . . . when the Department determines that the delay or decision of a board prevents the mortgagor from achieving a level of residential income necessary to maintain and operate adequately the project, which includes sufficient funds to meet the financial obligations under the mortgage.

24 C.F.R. Part 246.5 (1986).

It bears noting, however, that financial assistance to the needy -- whether in the form of direct subsidies or counterproductive rent controls -- cannot alone resolve the fundamental problem facing the rental housing market -- that of inadequate supply in areas of shortage. Only a policy that combines financial assistance with direct stimulation of supply factors in the market can hope to resolve this problem.

We thank you for this opportunity to comment on the form of a new Federal housing policy and look forward to the opportunity of working with you and your staffs in future months to develop an effective and fair housing policy that satisfies the needs of both consumers and producers of housing.

Respectfully submitted,

Jonathan L. Kempner

Jonathan L. Kempner
President
National Multi Housing Council

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PROPOSED

NATIONAL ENDOWMENT FOR AMERICA'S NEIGHBORHOODS

Prepared by

Neighborhood Endowment Task Force
of the
National Neighborhood Coalition
Joe McNeely, Development Training Institute
Task Force Chairperson

THE NATIONAL ENDOWMENT FOR AMERICA'S NEIGHBORHOODS

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INTRODUCTION: THE NATIONAL ENDOWMENT FOR AMERICA'S NEIGHBORHOODS

ORIGIN OF PROPOSAL

This proposal was generated by members of the National Neighborhood Coalition, a membership association of national and regional organizations which are interested in the progress of community-based organizations in urban neighborhoods and rural areas; the Coalition primarily includes national groups headquartered in Washington. In identifying the priorities of its neighborhood constituency groups, the Coalition singled out financial support and direct federal grants as one of the highest concerns of community-based organizations. Realizing the limitations of earlier federal programs and conscious of the national commitment to reduce the federal deficit, the Coalition sought a new approach to federal participation that would not require an annual appropriation from the federal budget. The proposal for the National Endowment for America's Neighborhoods is the result.

GOALS FOR A NEW PROGRAM

The Coalition identified several goals which a proposal for a new program should incorporate:

1. Direct federal financial support;
2. Matching of federal funds with private money at the national level as well as at the local project level;
3. Financial support for a wide variety of activities;
4. Responsiveness to the initiatives and needs of neighborhood groups (in contrast to programs which dictate categories of activity or specific approaches);
5. Insulation from change of Administration or partisan politics at the federal level or direct intervention by individual legislators; and
6. Structure so that decisions can be influenced by the constituency which benefits from the program.

WE PROPOSE NOW

A. That the legislation be introduced in Congress; and
B. That a broad scale and deliberate program of public education be organized about the proposed legislation.

THE NATIONAL ENDOWMENT FOR AMERICA'S NEIGHBORHOODS: A SUMMARY

The National Neighborhood Coalition has drafted a proposal for the establishment of a new federally-sponsored organization called the National Endowment for America's Neighborhoods. This Endowment would be governed by a Board of Directors appointed by the President and the Congress. It would provide financial support for qualified community organizations in urban neighborhoods and rural communities for a wide range of activities. The federal financial commitment would be a one time financial contribution which would be matched by private and local funds.

The Proposal's "Preamble" and "Findings" set forth the background and rationale for this legislation. These are philosophical sections which provide a framework for everything else in the proposal. These sections attempt to come as close as possible to actual legislative language.

The "Purpose" section of the proposal outlines the goals of the Endowment to provide financial support for a wide variety of community-initiated activities under the direction of an independent governing board which administers the Endowment.

The "Structure" section proposes that the Endowment be governed by a nineteen member Board with six-year terms; these terms would be staggered so that there is continuity on the Board. The Board will be appointed by the President; one third of each set of appointments must be drawn from a list proposed by the Senate President pro tempore and minority leader, and one third from a list proposed by the House Speaker and minority leader. Nine members of the Board must be selected from the staff or membership of community organizations that are eligible for assistance from the Endowment. The remaining Board members may be selected from a broad range of people interested in neighborhoods. The Board is empowered to fill vacancies which occur on the board between appointments, and will elect its own officers. The Board is authorized to hire a President who will direct the staff, and to promulgate regulations and procedures for the operation of the Endowment. Board members will serve without salary but will be compensated for expenses and for time spent at Board meetings in the same manner as members of other corporate boards established by Congress. After private matching funds have been received, a "donors forum" will elect an additional five people to the Board.

The "Activities" section gives the Endowment full corporate powers so that it can carry out its authorized program. These include establishing regulations for the Endowment and the grant program; making grants to neighborhood organizations; and using up to 10% of its funds for research, technical assistance and training.

The "Grant Program" section describes a flexible program with broad eligibility. The criteria for activities which will be eligible is established to include all activities except those specifically eliminated. The organizations which are eligible to apply under the program are also described very broadly, but limited to community-based organizations which have a geographic focus and are representative of and accountable to the people of that geographic area. A competitive criteria is suggested for selecting grantees from among those which are eligible and which have planned to undertake eligible activities. The seventeen criteria listed in the proposal would guide the Endowment in formulating more specific grant selection rating criteria.

Unlike other "National Endowments," the National Endowment for America's Neighborhoods would be an actual trust fund with a "corpus". The one time federal contribution would be drawn down over several years based on the contribution of matching funds. After that one-time contribution, the Endowment would not receive a federal appropriation but would operate on the earnings of the trust fund.

PROPOSAL FOR THE NATIONAL ENDOWMENT FOR AMERICA'S NEIGHBORHOODS

A. Preamble

1. Whereas the quality and vitality of American society is determined by the condition of its neighborhoods, the neighborhood constitutes a key to the social, cultural, economic, and political fabric of the country.
2. Whereas many neighborhoods are confronted with major problems such as lack of employment, decent housing, and limited services, the residents are faced with social economic and political problems resulting from events and actions beyond their control.
3. Whereas urban neighborhoods and rural communities are basic units for self-governance and citizen participation, neighborhoods and rural communities and their organizations seek to be self-sustaining and independent mechanisms that work in concert with federal, state, and local government actors.
4. Whereas the urban neighborhood and rural community level provides the most appropriate scale for the operation of many public services and programs, neighborhood and community organizations can effectively serve the varying social, cultural and economic needs of their residents.
5. Whereas many federal programs and funds are poorly targeted to intended beneficiaries in low-income neighborhoods, the involvement of neighborhood organizations makes it easier to focus social service, housing, economic development and other resources to intended beneficiaries.
6. Whereas neighborhood people and organizations are fully capable of planning and implementation, neighborhoods with limited resources need to be able to harness outside private and public resources to economically maintain and improve the neighborhood.

7. Whereas the deteriorating condition of neighborhoods is a national problem, the federal government has a responsibility to provide resources to strengthen neighborhoods.

B. **Congressional Findings (proposed)**

The Congress finds that:

1. Urban neighborhoods and rural comunities and their organizations are vital to the welfare of residents by providing an enviroment to meet basic human needs and and opportunity for personal growth and enrichment.
2. Neighborhood and community organizations provide a wide array of activities and services for their community including crime prevention, health, housing, and economic development, which ultimately benefit American society.
3. Urban neighborhood and rural community organizations have undertaken innovative and targeted activities to benefit low-income residents. These activities and services complement the resources of government.
4. A targeted mechanism that can harness private and public resources to benefit low- and moderate-income neighborhoods is needed to help neighborhoods become more self sustaining and contribute to the overall wealth of the United States.
5. Many corporations, foundations, private individuals and state and local governments are interested in joining with the federal government in supporting neighborhood vitality.
6. Several federal programs and many local privately funded efforts have shown the effectiveness of small amounts of direct, national financial support to locally initiated neighborhood revitalization efforts.

C. **The purpose of this Act is to establish a National Endowment for America's Neighborhoods that:**

1. will support an array of innovative activities designed to improve the social, economic and cultural fabric of urban and rural communities;
2. will be flexible in responding to neighborhood needs and will harness private sector and federal, state and local government resources in order to benefit neighborhoods;
3. will have an independent governing board appointed by the President to serve as the decision-making unit for the Endowment; and
4. will not require an ongoing annual appropriation in the federal budget.

D. **Structure of the National Endowment for America's Neighborhoods**

1. The Endowment shall establish a Trust Fund, the earnings from which shall be used to support the activities of the Endowment. The federal contribution to that Trust Fund shall be made over five fiscal years, each year's amount conditional on the Endowment having binding commitments for the required match of private and local money.
2. Appointment

   a. The Board of Directors of the National Endowment for America's Neighborhoods shall be composed of nineteen (19) members appointed by the President, six of whom shall be appointed from among the recommendations made by the Speaker of the House of Representatives (in consultation with the minority leader of the House of Representatives), and six of whom shall be appointed from among the recommendations made by the President pro tempore of the Senate, in consultation with the majority leader and minority leader of the Senate.

b. Each of the individuals making recommendations to the President regarding appointments shall seek to achieve a balanced membership representing to the maximum practicable, the Nation as a whole.

c. The President's initial and subsequent appointments should insure that no less than nine members are selected from the staff or membership of organizations that are elegible for assistance from the National Endowment for America's Neighborhoods.

d. Other Board members shall be selected from the broad range of people and organizations interested in neighborhoods, including but not limited to representatives of national organizations with community-based affiliates or members, regional and local technical assistance providers to neighborhoods, philantropic and voluntary organizations, local and state governments, environmental organizations, civil rights and minority organizations and organized business groups. At least three members shall reflect potential donor groups.

e. In the third year, the Endowment shall create a mechanism by which donors to the Endowment other than the federal government may participate in the election of five donor representatives to be added to the nineteen member board.

3. Term of Office

a. When the Board is established six members shall be appointed for two year terms, six members shall be appointed for four-year terms and seven members shall be appointed for six-year terms. Two members drawn from the recommendations of the Speaker of the House, as well as two drawn from the recommendations of the President Pro Tempore of the Senate shall be appointed for six-year terms, and two shall be appointed for four-year terms.

b. Upon expiration of these initial terms, the President shall appoint new Board members for six-year terms, selected in the same manner in which the original appointment was made.

c. Whenever a board position is left vacant before its term has expired, due to the resignation, incapacity or inactivity of the board member, or for any other reason, the Board itself may select a new board member for the remainder of the unexpired term.

d. A Board member who has served six years or more on the Board shall not be eligible for reappointment to the Board. A former Board member who has not served on the Board for a period of at least one year shall be eligible for appointment to the Board.

e. The donor representatives shall also serve staggered, six year terms.

4. Officers

The board members shall, from among their ranks, select a Chairperson and other Board officers as deemed necessary.

5. Compensation

Members of the Board shall: 1) receive compensation at a rate equal to the daily equivalent of the rate prescribed for grade GS-18 under Section 5332 of Title 5, for each day that they are engaged in the performance of their duties on the Board, and 2) be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in Government service are allowed expenses under Section 5703(b) of title 5, for each day that they are away from their homes or regular places of business in the performance of their duties on the Board.

E. Authorized Activities (Powers of the Endowment):

1. The Endowment is organized to make grants to local voluntary organizations for a variety of self-help activities according to procedures and announcements that the Endowment will publish in the Federal Register and other appropriate public communication channels;
2. The Endowment may establish a calendar of grants availability whether by a regular schedule, or by periodic deadlines;
3. The Endowment may establish from time to time categories of activities or program areas for individual grant cycles; the Endowment may enter into contracts or cooperative agreements and make grants for technical assistance, training, research, and evaluation activities as long as the cumulative amount so committed does not exceed 10% of the annual appropriation for the program;
4. The Board of Directors of the Endowment shall hire a president and staff to administer, promote and implement the policies for the program that are established by the board;
5. The Endowment is authorized to accept gifts, grants, bequests, endowments, and any other form of monetary or property donation, and may commingle federal funds with those received from other sources;
6. The Board of the Endowment may authorize the President of the Endowment to approve, without prior Board approval, grants up to $25,000 which fall within guidelines established by the Board; such grants will be reported to the Board at its subsequent meetings;
7. Grants made by the Endowment shall be exempt from Office of Management and Budget (OMB), Circular A-95: Intergovernmental Review, and OMB Circular 112: Unitary Audit;
8. The Endowment shall report to Congress every two years even though the authorization is for five years;
9. The Endowment shall be subject to suit and shall have the power to bring suit for tort and contract liability.

F. Grants Program

1. Eligible Activities

a. In order to respond to local initiatives by voluntary non-governmental organizations, the Endowment is authorized to support through grants, contracts, and cooperative agreements, a wide range of activities. From time to time the Endowment may publish in the Federal Register a specific range of activities that will be considered for a specific grant offering but at no time shall the total offerings of the Endowment be so described as to preclude an organization from proposing and having considered for funding an activity that does not fall into one of the offered categories or one of the prohibitions below.

b. Certain activities are prohibited, however:

(1) Public works in urban areas, except as related to specific community housing and economic development projects benefiting residents of the local community served by the organization.

(2) Activities directly related to support of a candidate for public office.

(3) Salaries of public officials or employees of units of government or their subsidiaries and affiliated organizations.

c. When purchases of equipment are authorized under the terms of a particular grant, that equipment shall be exempt from the rules of government ownership and shall be the full and permanent possession of the grantee organization.

2. Eligible Applicants

Any voluntary, non-governmental organization shall be eligible for grants under this program provided it meets the following requirements and the activities it proposes also meet the requirements of the program:

a. The applicant organization must have a specific geographic focus and include or be open to all residents who live within the geographic area;

b. The applicant organization must have some clear mechanism of accountability to the residents of the geographic area;

c. The applicant organizations must be representative of minorities of the geographic area; and

d. The applicant organization must be not-for-profit with fiscal accountability whether or not the organization is incorporated.

3. Criteria for Selecting Grantees

a. All applicants to be selected must meet the eligibility requirements listed above.

b. All activities proposed under the program must meet the requirements for eligible activities described above.

c. Applicants and activities must meet the other requirements described by the Endowment in the Federal Register for particular offerings that are made from time to time.

d. In addition to these minimal requirements, grantees will be selected and the amount of the grant award will be determined on the basis of a competitive rating scale which gives equal weight to the following factors:

(1) the extent to which the federal resources are matched by other resources of the geographic community served by the organization;

(2) the degree to which the federal resources are matched by other resources proportional to the ability and resources of the community served by the applicant organization;

(3) the degree to which the activities proposed are well thought out, well-planned and coherent;

(4) the degree to which the organization evidences the capability of initiating, managing and evaluating the activities proposed;

(5) the degree to which the neighborhood suffers from a high degree of economic distress as evidenced by an area unemployment rate that exceeds the national unemployment rate;

(6) the degree to which the neighborhood has serious housing problems as evidenced by the proportion of substandard and detrioreting housing within the community;

(7) the degree to which residents of the neighborhood have inadequate services, especially services which address basic human needs within the area;

(8) the degree to which the neighborhood faces disruption or injury from actions initiated from outside the community which cannot be addressed effectively with resources which are available locally;

(9) the degree to which the proposed activity addresses the most serious needs of the neighborhood;

(10) the degree to which the activities proposed particularly serve low- and moderate-income residents of the geographic community served by the organization;

(11) the degree to which the activities proposed benefit the otherwise disadvantaged minorities of the communities served by the organization;

(12) the degree to which the activities promote harmony and cohesiveness between various sub-groups of the residential population of the area served by the organization;

(13) the degree to which the people affected by the proposed activities were involved in the planning and application process;

(14) the degree to which the activities promote the public welfare;

(15) the degree of planning and coordination with units of local government, where appropriate;

(16) the degree to which the proposal in innovative in involving people in the solution of community problems; and

(17) such other criteria as shall be established from time to time by the Board and/or staff of the Endowment appropriate to the purposes of the Endowment and the particular offering or grant category being considered.

4. Administrative Requirements

The Board shall insure that two-thirds of the amount of funding provided under the grants program will be made to groups in low- and moderate-income neighborhoods.

NRECA NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION
1800 Massachusetts Avenue, N.W., Washington, D.C. 20036
Telephone: (202) 857-9500

October 5, 1987

The Honorable Alan Cranston
United States Senate
112 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

I am writing in response to your request for our suggestions as you prepare major housing legislation for introduction early next year. The National Rural Electric Cooperative Association (NRECA) is the national service organization for the approximately 1,000 consumer owned rural electric systems which serve about 25 million people in 2,600 counties within 46 states.

I share your feeling that now is a very appropriate time to reassess our housing policies and programs and design a strategy for the 1990s and beyond.

Our specific comments are as follows:

1. ANY NATIONAL HOUSING INITIATIVE MUST INCLUDE A CLEAR FOCUS ON RURAL HOUSING NEEDS.

   Approximately 56 million people, 23.5% of the population of the United States, live outside of metropolitan areas. Many of these people live in quite remote areas and, as a result, do not have the same access as the urban population to health care, housing, education and employment opportunities. To some extent this "lack of access" is an inherent disadvantage of persons living in rural areas. However, there are several other rural disadvantages currently being experienced which are not inherent. Many of these have worsened dramatically during the 1980s.

   - Substandard Housing: Although only 23.5% of the U.S. population resides in nonmetropolitan areas, these areas account for almost half of all housing in the "severely inadequate" category.

   - Shortage of New Housing: Construction of new housing in rural areas is now taking place at a rate insufficient to meet demand. This problem, which is described in detail in a 1986 Congressional Research Service report, is directly related to the inadequate availability of private credit for rural home construction.

- Rural Poverty: Throughout this century, a disproportionate share of the nation's poor have resided in rural areas. As of 1985 rural areas had a poverty rate of 18.3% as compared to 12.7% for metropolitan areas. Since the recovery from the recession of the early 1980s, the poverty rate in metropolitan areas has fallen, but the nonmetropolitan rate has not.

- Job Growth: Since 1979 the number of urban jobs increased by 13%; in rural areas the increase was less than a third of this -- only 4%.

  Particularly hard hit were those rural counties dependent upon natural resources and manufacturing:

  - Employment declined by 9.5% in counties dependent on mining and energy extraction.

  - Virtually no growth occurred in agricultural counties.

  - Manufacturing counties registered only 2.7% growth.

  Unemployment rates in nonmetro areas have been above those of metro areas during each year of the 1980s -- a reversal of historic patterns.

- Population: During the 1980s rural population growth has slowed and is now below urban growth. This is in contrast to the 1970s when rural areas, for the first time in more than a century, grew faster than urban areas. This slow-growth reflects major problems in the performance of the rural economy and signals a return to the generalized rural declines of the 1950s and 1960s.

The poor performance of the rural economy during the 1980s has occurred as the result of economic dislocation and associated structured change as industries responsible for much of the rural base (agriculture, natural resources, mining and low skill manufacturing) declined, and service industries (concentrated in urban areas) expanded. Along with this economic dislocation has come financial strain for individuals and households. Substantial data and research are available on the economic factors affecting rural America. We suggest that you consider this information as you develop a national housing strategy.

If the condition of rural America is to be turned around, attention must be given to correcting those problems which discourage industry from locating in rural areas and people from living there. A very key factor is the quality of life in a community. Quality of life considerations revolve around many factors, such as the adequacy of infrastructure resources in the areas of education, health and other public services. However, housing is a key component of any quality of life judgment. If a community has available adequate quality housing at reasonable costs, it is much more likely to attract new industry than a community which does not. Worse yet is a community without adequate housing which also lacks the ability to finance, construct, and place into service needed additions or improvements to its housing stock. We urge that you carefully consider the role played by housing in economic development and include provisions in your new initiative which create a positive climate for rural development by encouraging a dynamic housing environment in our rural communities.

2. INCREASED EMPHASIS SHOULD BE PLACED ON RURAL ECONOMIC DEVELOPMENT AND A MAJOR EFFORT SHOULD BE UNDERTAKEN TO IMPROVE THE DELIVERY OF FEDERAL PROGRAMS TO RURAL AREAS.

NRECA believes that the present federal programs for rural development -- including rural infrastructure, housing, and business development -- should be consolidated.

The present federal system of rural program delivery is often confusing, overlapping and inefficient. We recommend that a major study be undertaken of the most effective method of combining these programs in order to improve the focus on economic development and maximize the federal assistance provided to rural areas.

Until such a major restructuring and refocussing has occurred, NRECA strongly supports the continuation of FmHA's existing housing programs and their funding at adequate levels.

3. THERMAL STANDARDS SHOULD BE THE SAME FOR MOBIL HOMES AS FOR SITE BUILT HOMES.

Most mobil homes now being built do not have the same levels of thermal standards as new site built housing. As a result energy bills are unnecessarily high and burdensome for many mobile home owners -- often low income households.

The Department of Housing and Urban Development (HUD) has established standards for manufactured homes. However, these HUD standards are far below those required by HUD for site built homes that carry federally insured mortgages. They are likewise below state, local and regional building codes.

For two decades NRECA and rural electric cooperatives throughout the nation have been urging higher thermal and construction standards for mobile homes. We have testified before Congressional and governmental committees. We have written letters. We have made numerous contacts -- with Congress and manufacturers. But to date owners and occupants of mobile homes do not have the same kind of thermal standards protection that is given to owners of site built housing.

The issue of thermal standards for mobile/manufactured housing is especially acute in areas served by rural electric cooperatives, where a significant portion of the nation's low income families reside. As a consequence, a very high percentage of the new homes in rural

America are mobile or manufactured, and many of these continue to be poorly built from an energy efficiency standpoint. In some areas, as many as 25% to 40% of new homes being served by rural electric cooperatives are mobile homes.

Energy bills for people living in small mobile homes, built to minimum standards, are frequently 40% to 60% greater than equivalent homes built to site built housing standards. This is a terrible discrimination against the low-income and elderly people who often have no choice but to own or live in mobile homes.

The time to give attention to thermal efficiency is when the house is being built. Retrofitting to improve the thermal efficiency of the building envelope is expensive -- and almost impossible in a mobile home. Yet the cost, during construction, to add the necessary insulation which would increase thermal efficiency to acceptable levels is far less and is cost effective.

Therefore, we urge that you carefully consider this important matter as you develop new housing legislation and that such legislation mandate that thermal requirements in newly constructed manufactured homes be equivalent to the requirements applicable to site built housing.

4. MODERATE INCOME HOUSEHOLDS SHOULD BE ASSISTED.

Specific programs should be developed to meet the housing needs of moderate income people. These families with incomes too low to qualify for private financing and too high to qualify for loans from the Farmers Home Administration are often frustrated in their attempts to achieve the goal of homeownership and/or acceptable quality housing. Modest levels of assistance could open housing opportunities to this group which too often "falls between the cracks" of present housing programs.

5. THE SERIOUS PROBLEM OF PREPAYMENT OF RENTAL HOUSING LOANS MUST BE ADDRESSED.

We are concerned by the significant number of prepayments of FmHA rental housing loans during the past few years, partly as a result of the drop in interest rates. The purpose of these subsidized loans is to encourage the development of moderately priced rental units. When these loans are prepaid and there is a conversion to higher priced units, the purpose of this program is subverted and the stock of lower priced units is dangerously reduced.

We recommend that housing legislation address this serious problem.

6. CENSUS DATA MUST BE PRESERVED.

Solid statistical data on housing trends and the condition of the nation's housing must be maintained. Informed policy and legislative decisions require correct and comprehensive information.

We feel that attempts to cut survey costs by further reducing data collection and analysis would, in the end, increase costs and make decision making more difficult in this extremely important area of our nation's wellbeing.

7. ROLE OF RURAL ELECTRIC COOPERATIVES.

Rural electric cooperatives are community based, consumer owned organizations with deep roots in their communities. They provide service to 25 million people in 2600 of this nation's counties. Rural electric cooperatives employ about 58,000 people -- managers, engineers, accountants, linemen, office staff -- and there are some approximately 9,000 community leaders who serve as directors (elected by their fellow member consumers) on these co-op boards. Rural electric cooperatives form a powerful network that covers our countryside.

NRECA believes very strongly that these cooperatives can play an integral role in revitalizing rural America. They have the skills and a firm commitment to their home communities.

Let me suggest that in developing a new housing initiative that you give serious study to using the rural electric cooperatives to assist in delivering federal programs to rural areas. Our experience is that the REA model of federal/local partnership has worked extremely well in bringing electricity and telephone service to rural America. We believe that this successful model should be studied and expanded upon.

Let me end by reemphasizing the first point made in this letter: that ANY NATIONAL HOUSING INITIATIVE MUST INCLUDE A CLEAR FOCUS ON RURAL HOUSING NEEDS. Our citizens must not be limited to the confines of metropolitan areas in their search for suitable employment opportunities and adequate housing. Our challenge is to foster an environment in which all areas of our nation can develop and prosper. A policy which creates opportunities in rural America can help to stem the present rapid pace of rural outmigration and thus assist both our rural and urban communities.

We appreciate this opportunity to express our thoughts as you prepare for a new legislative initiative. An identical letter has been sent to Senator Alfonse D'Amato.

Sincerely,

Bob Bergland
Executive Vice President

BB:dfs

NEIGHBORHOOD REINVESTMENT CORPORATION

HOUSING POLICY RECOMMENDATIONS

INTRODUCTION

We thank the Housing Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs for an opportunity to provide input on a new national housing policy.

The Neighborhood Reinvestment Corporation and its predecessor organizations have been working with a unique partnership of financial institution and other business leaders, neighborhood leaders and local governments since 1970 revitalizing declining neighborhoods and producing affordable housing. Our local partnerships which serve 237 neighborhoods in 137 cities and towns in 42 states, the District of Columbia and Puerto Rico have often worked with existing federal housing programs, but have also created many new housing and community development tools. We hope our experience can be helpful to the Committee in its work.

We have grown increasingly concerned about the effects on lower income neighborhoods of the increasing costs of homeownership and rental housing. In addition, the Tax Reform Act of 1986 and the outlook of increasing numbers of HUD subsidized rental units escaping use restrictions seemed certain to worsen the situation with regard to rental housing. Therefore, the Neighborhood Reinvestment Corporation commissioned Dr. Phillip L. Clay, Associate Professor, Massachusetts Institute of Technology, to document the impact on lower income households of likely losses of rental units. His study, At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources, which is appended to these recommendations, projects a broadening gap between the number of low-income households and the number of housing units they could afford to rent. A similar projection could be made for moderate-income households and, in many regional real estate markets, for middle-income households as well. Lack of production of new units for owner occupancy or for rental, affordable to the bottom half of our income spectrum, accompanied by growth in the number of households needing them (caused in part by a reduction in household size), has put an enormous premium on existing low-cost unsubsidized housing stocks. Truly, the "trickle down" process has been replaced by a "filter up" process.

The projected gap between 17.2 million low-income households and 9.4 million units they can afford to rent implies that if nothing is done to change this course, by the year 2003 (just 16 years from now) 7.8 million low-income households will be rent-burdened, overcrowded, occupying substandard housing, doubled up with other households, or outright homeless. This and the accompanying prospect of the destabilizing tendencies which may be produced by Tax Reform's side effects in soft markets and undesirable locations is likely to create a disinvestment environment reminiscent of the sixties.

Neighborhood Reinvestment's work of revitalizing lower income neighborhoods can be expected to be severely impacted if such a scenario plays itself out, and the 1960's phenomenon is repeated of displaced low-income households overcrowding vulnerable neighborhoods, contributing to their "tipping" into new cycles of disinvestment.

Within our present budgetary resources, Neighborhood Reinvestment is already at work with Neighborhood Housing Services (NHS), Apartment Improvement Program (AIP), Mutual Housing Association network stimulating projects which will preserve and expand low-rent rental resources, intervene to prevent homelessness and house the currently homeless.

Our housing policy recommendations will range from philosophical to detailed. They will include recommendations related to programs administered by HUD and a vision of how Neighborhood Reinvestment's work can contribute to improved housing and neighborhood conditions for lower income Americans.

LIST OF RECOMMENDATIONS

I. Adopt an approach of field testing a variety of new programs on a pilot basis, rather than implementing untried major-scale programs.

II. Accept the virtual elimination of tax benefits as a housing stimulus and develop new subsidy vehicles, which are less subject to distortion.

III. Adopt the recommendations for federal action contained in our study, At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources, by Phillip L. Clay.

IV. Weigh the costs and benefits of providing subsidies which will benefit targeted populations in perpetuity, rather than for a limited period of time.

V. Continue the Community Development Block Grant (CDBG) Program, and expand it when fiscally feasible.

VI. Continue and expand support for Public Housing.

VII. Expand Neighborhood Reinvestment's secondary market for low-interest loans.

VIII. Support a pilot program for expansion of Neighborhood Reinvestment's Mutual Housing Association network.

RECOMMENDATIONS

I. Adopt an approach of field testing new programs on a pilot basis, rather than implementing untried major-scale programs. A national housing policy for the final decade of the twentieth century will be of necessity a transitional policy. A policy guiding a transition in housing economics, a transition in governmental roles, a transition in fiscal capacity. Rather than implementing a grand new design, we recommend that the policy-- both of fiscal necessity and for prudence sake -- establish a broad future course and extend a series of new approaches to be tried and tested in today's complex, rapidly changing real world.

II. Accept the virtual elimination of tax benefits as a housing stimulus and develop new subsidy vehicles, which are less subject to distortion. The Tax Reform Act of 1986 is, of course, an important determinant of the unfolding housing environment. However, it is our opinion that while the Act removed many tax advantages to private housing producers and rental housing operators, and the removal of these incentives will in the short run add to problems of housing availability and affordability, this does not justify a rolling back of these reforms. Greater efficiency and economy of private housing production and management may be one of the results of the reforms, and another will be the elimination of the distortion of programmatic intent which frequently accompanied this indirect mode of providing subsidies. Living with the reforms will challenge a new national housing policy to confront the subsidy questions head-on, rather than being able to hide them in reduced Treasury tax receipts, and will require consideration of who, if not the private sector, should fill the vacant market niche between the market which can be profitably served by the private sector and the market served by public housing.

III. Adopt the recommendations for federal action contained in our study, "At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources", by Phillip L. Clay. The study projects that losses in the federally-assisted stock can be expected through property disposition practices, expiration of use restrictions, expiring contracts, transfer of ownership of subsidized projects and sale of public housing units. While acknowledging data problems, the report concludes that "it appears that as many as half the assisted units are on course to be lost to low- and moderate-income use in the next decade, with additional losses by 2025," with the actual loss depending "on market conditions, public policy, and calculation by owners of what their best interests are."[1] Where these losses in the stock of subsidized housing occur in tight markets, already suffering the results of the diminution of the affordable unsubsidized stock, rental subsidies will be of little use to displaced assisted housing residents. Accordingly, it is our conclusion that production assistance will be required in many markets, as well as rent subsidies, if major displacement is to be avoided.

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[1] Clay, Phillip L., At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources, Neighborhood Reinvestment Corporation, Washington, D.C., May 1987, p. 18.

The report includes the following recommendations for federal action:

> 1. The federal government should commit to maintaining project-based subsidies on all projects in the subsidized stock when required to maintain affordability.
>
> The recommendation does not suggest a particular level or form for this assistance other than that the assistance be made to the project not the individual tenant. (Vouchers and other direct aid ought to go to tenants in the unsubsidized stock or where there is credible evidence that the poor are able to find units available on a non-discriminatory basis.) Housing in the various programs will require different treatment ... The older projects, in most cases, will require less assistance while the newer projects, those needing major repairs, and those serving low income families in weak markets, will require more assistance.
>
> ***
>
> Besides funding to keep projects viable and affordable, a commitment of this support has another purpose. It is to send a message that there is a national policy to save the stock of housing at risk. It is a message that needs to come early, to be unambiguous and part of a strategy. It should also have an appropriate set of standards to serve as disincentives to slum operators or those who would underwrite their activities.
>
> Finally, the assistance should, to the maximum extent possible, be "front end" assistance so as to avoid open-ended, expensive, and inefficient use of public funds. Needless to say, such assistance should be contingent on firm assurance of long-term benefit to the needy.
>
> 2. The federal government should use existing authority and should request additional authority to provide incentives to owners of the assisted stock not to take advantage of options to which they are legally entitled but which threaten the loss of the units to the affordable stock.
>
> HUD cannot renege on contracts and agreements nor prevent owners from exercising options to which they are entitled. But just as the future of a fraction of

this subsidized stock is not clear to us, this uncertainty applies to the owners as well. For that reason, they may be responsive to incentives to keep housing affordable.

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3. The federal government should promulgate regulations and provide assistance to increase the opportunity for community and nonprofit groups or, if necessary, appropriate for-profit institutions, to acquire and manage the subsidized housing.

Nonprofit groups, like for-profit investors, have a mixed record in terms of the stewardship of the subsidized stock. The failures on the part of the nonprofits, however, are rarely deliberate efforts to subvert the purposes of the program and are more often the result of overwhelming circumstances (such as the energy crisis) or inexperience. As a source of long-term commitment to low- and moderate-income housing, community housing developers represent the major potential sponsor that can be counted on. Such confidence should not be based on sentiment, however. ...[T]he lower costs at which capable nonprofits can provide housing and the long term commitment to the poor are powerful reasons for encouraging their greater role.

***

Our confidence would be strengthened considerably, however, if these organizations were given support in building their capacity and if they were part of a local, regional or national network of nonprofits.

***

The aim of federal policy ought to be to increase the capacity of these organizations. By increasing their capacity it would allow them to take over some of the subsidized stock, enter into partnerships with for-profit companies, try new ideas, or provide development services (i.e. construction management, etc.) as part of a larger housing delivery system.

These groups can also take advantage of opportunities to form cooperatives or mutual housing associations or to create property management organizations. To play this role requires the federal government to support a national program of capacity-building.

***

4. Sponsors who have a poor record in past dealings should be excluded from further participation in programs. Preferred status should be accorded to developers who have an excellent record in their previous experience and to teams that represent viable nonprofit/private partnerships.

The conservation of the subsidized stock is a venture that requires the utmost caution in implementation. There are in each community sponsors who have widely recognized and well documented records as irresponsible owners and sponsors of subsidized projects.

HUD has been criticized for allowing such sponsors to continue to participate in federal housing programs. A federally-led effort to save this housing ought to include strict sponsor performance standards and an assessment of past records so as to separate out the 'bad eggs.' Almost any policy undertaken to preserve subsidized housing will have provisions which can be abused and which, if abused, will undermine the project.

5. The federal government should develop a plan to address the issues raised in this report.

There are a variety of issues, the meaning and implications of which have been newly transformed by expiring uses and contracts, changes in the tax law, underwriting practices, etc. Owners, prospective investors, tenants, state and local officials, and others need clear signals for what they can expect from the federal government so that the exercise of their choices can be fully informed and hopefully more consistent with national policy.

***

In developing this plan, the federal government should consult and take into account the role that state and local governments can play and the roles that are consistent with the community and resident interests. There is, in local communities, a great deal of experience gained in recent years rescuing troubled housing, forming partnerships, and designing incentives for local developments. This experience, while considerable, has not been directed to the federal stock. The federal government will have to learn from that experience and will have to develop with these local players arrangements for joint action, which in some cases may involve wholesale disposition of housing to those state finance agencies that have a good track record underwriting and overseeing production and redevelopment of multifamily housing.

***

6. The federal government should develop appropriate mechanisms for refinancing subsidized or formerly subsidized housing as these projects experience turnover or need refinancing in connection with the issues raised in this report.

As pointed out in Chapter 4 [of the report], the changed environment for real estate finance will make previously acceptable urban real estate and reinvestment projects appear too 'risky.' This will be especially so where efforts are made to keep the units affordable. Reduced tax benefits and more conservative underwriting standards will also contribute to a poorer competitive position for low-rent housing in the capital market. When this poorer competitive position is recognized by investors and owners, it encourages behavior on their part that is not supportive either of helping the poor or of maintaining the quality of the housing stock.

Under these circumstances, the federal government, through the Government National Mortgage Association (GNMA) or some other mechanism, should assure that adequate financing exists for projects which need it and which are consistent with other proposals in this report. Providing financing is a separate matter from any consideration of subsidy which may also be required.[2]

IV. Weigh the costs and benefits of providing subsidies which will benefit targeted populations in perpetuity, rather than for a limited period of time.

We support the recommendations in III, above. We urge, however, with regard to the recommendations for continuing subsidies and incentives contained in recommendations 1, and 2, that consideration be given to the relationship between the total cost to the government of a subsidy or incentive to a private owner, and the period of time this would buy use of the units for the intended low- and moderate-income beneficiaries. In some cases, it might be more cost-beneficial to apply the same amount of subsidy to the production of public housing or Mutual Housing Association units, and secure their use for the targeted population in perpetuity. We also urge that greater consideration be given to subsidies where there is a close coherence of objectives among the subsidizer, occupants and operating entity.

V. Continue the Community Development Block Grant (CDBG) Program, and expand it when fiscally feasible.

In our work with Neighborhood Housing Services, Apartment Improvement Programs and Mutual Housing Associations, we have found the flexibility of the CDBG program to be unsurpassed in tailoring housing and neighborhood revitalization strategies to local conditions. Any new national housing policy should continue this program and expand it when it is fiscally possible to do so.

We are currently working with a number of local governments and their NHSs and Mutual Housing Associations to add a further element to this program's virtuosity: namely, opening our secondary market to local governments so that they can sell loans they have originated using CDBG resources, and use the proceeds to expand their current community development efforts.[3]

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[2] Ibid., pp. 38-40

VI. Continue and expand support for Public Housing.

The Public Housing Program's 1.35 million units houses the nation's poorest families. Roughly an equal number of families are on waiting lists for public housing units. Housing for this segment of our society is a critically important element of a national housing policy, and is, in our judgement, both an appropriate role for government, and a role that private for-profit and nonprofit housing entities would have difficulty filling.[4] In much of the United States, especially in large cities, any reduction in public housing units at the same time that the total subsidized and unsubsidized stock is shrinking is likely to add directly to the number of families living in substandard, overcrowded conditions, and those that are literally homeless. We recommend that Public Housing be adequately maintained, and that its expansion with new units be a high fiscal priority.

VII. Expand Neighborhood Reinvestment's secondary market for low-interest loans.

Much of the success of NHSs' work in revitalizing neighborhoods hinges on their revolving loan funds. Funded by Neighborhood Reinvestment, local government and foundation grants, revolving loan funds can loan flexibly at rates from 0% to market, and terms from one to 30 years, making feasible monthly payments on rehabilitation and home purchase loans that are affordable to low-income neighborhood residents.

The low-cost capital available for this purpose is in limited supply, and in 1975 Neighborhood Reinvestment's predecessor, the Urban Reinvestment Task Force, funded Neighborhood Housing Services of America (NHSA), a nonprofit corporation established by a group of lenders, neighborhood residents and local government officials representing the early NHSs to establish a national loan purchase pool. In 1978, this pool collateralized the first NHSA sale of notes to an institutional investor, and the NHS network's secondary market was born.[5]

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[3] See our report, appended to these recommendations, *A Report to the Housing Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs on Low-Cost Capital Through Secondary Market Leveraging*, Neighborhood Reinvestment Corporation, May 1987.

[4] Clay, *Op. Cit.*, p.15.

As of the end of 1986 the collective size of NHSs' Revolving Loan Funds was nearly $138 million. Over 13,000 loans had been made by NHSs, over 3,000 had been repaid and $34 million was currently available for making loans.

As of the end of March 1987, $23,041,767 in loans had been purchased from NHS programs by NHSA, replenishing their lendable funds by a like amount. New commitments from institutional investors through September 1987 brings total secondary market resources to $39 million.

NHSA buys loans from NHS's at par, with recourse. The institutional investors (primarily large insurance companies) buy the loan-backed notes at below-market rates, and Neighborhood Reinvestment grants and charitable contributions fund the gap between the average NHS rate and the below-market investor rate.

While this system has functioned flawlessly for nearly ten years, it does suffer from financial limitations.[6] Limited private contributions of "leverage capital" to cover the above mentioned gap are typically targeted to specific cities leaving many "have not" cities' access to the secondary market limited by Neighborhood Reinvestment's resources. Additional funding for this purpose would be leveraged approximately five-to-one by the secondary market.

Local Government Loans

Low-interest loans made by local governments are a significant potential source of low-cost capital in many cities.[7] NHSA is currently discussing with a number of local governments an unsubsidized purchase of such loans, and is working with the Allstate Insurance Company on a $10 million purchase of such loans. The low-cost capital this will produce is expected to support the following activities by NHSs and Mutual Housing Associations:

- Multifamily housing development, both rehab and new construction,
- Rehabilitation and sale projects,
- Homeownership promotion projects assisting neighborhood tenants acquire and rehabilitate vacant properties,

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[5] *A Report to the Housing Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs on Low-Cost Capital Through Secondary Market Leveraging*, Neighborhood Reinvestment Corporation, May 1987, p. 7.

[6] *Ibid.*, pp. 3-5.

[7] *Ibid.* pp. 5 and 10-11.

- Economic development and commercial revitalization projects,
- Re-capitalization of revolving loan funds,
- Development of additional Mutual Housing Associations,
- In-fill construction on scattered sites,
- Construction of new homes in small subdivisions on city-owned land,
- Purchase and rehabilitation of units for long-term use by homeless families.

Experience to date indicates two limitations to this important new housing and community development tool. First, few local governments are prepared to absorb the substantial over-capitalization required in these essentially market-rate transactions; and second, Allstate has indicated that while it is willing to accept the costs of development of such a vehicle as an NHS partner, future participation would be limited by the costs involved in multiple purchases of notes below $10 million.

Expansion of this valuable financial vehicle to any significant scale, therefore, hinges on subsidy resources to permit purchases near par of the local government loans, and capital to permit warehousing of loans purchased to facilitate sales of notes in $10 million increments.[8]

Appropriations of $11.6 million in each of fiscal years 1989 and 1990 would establish a $10 million revolving working capital fund and produce $20 million each year in low-cost capital. Annual appropriations thereafter of $6.6 million would produce $20 million in low-cost capital each year.

VIII. Support a pilot program for expansion of Neighborhood Reinvestment's Mutual Housing Association network.
In response to the projected severe lower income rental housing shortage for the rest of this century and beyond, we propose a pilot expansion of Neighborhood Reinvestment's network of Mutual Housing Associations. A network of Mutual Housing Associations located in communities of need throughout the United States will be one bulwark against the envisioned results of this rental housing crisis. Mutual Housing Associations can serve those households which cannot be served by either the private sector or by public housing. During the next two decades, there will be hundreds of thousands of households in need of the services of such a Mutual Housing Association network.

In brief:

- A Mutual Housing Association is a new combination of title and tenure. The Association, as a corporate entity, owns its properties, renting units to its members. The members pay a capital fee to qualify for a unit (about 5% of the value of the unit) which is returned with nominal interest when they move. Although members do not participate in capital appreciation, they enjoy a voice in management and the security of long-term tenure.

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[8] Ibid., p.11.

- A Mutual Housing Association is special in its form of governance. Its Board of Directors is a public/private/community/occupant "partnership". Occupants of Association units and members waiting for units compose a bare majority of the Board. The other members are representatives of the communities in which the Association operates, representatives of local and state governments, and housing professionals and business people, strengthening the Association's management through their relationships and expertise -- as a public service.

- A Mutual Housing Association is a publicly-accountable, nonprofit corporation with a mission of community improvement and service to lower income households. It does not operate solely for the benefit of its members.

- A Mutual Housing Association is a continuous producer of housing, including in its rent calculations a "return on public capital" dedicated along with any other financial surpluses to future production.

- A Mutual Housing Association is a member of, and supported by, the Neighborhood Reinvestment Corporation's service network, which currently provides financial and technical services and grants to Neighborhood Housing Services, Apartment Improvement Programs and Mutual Housing Associations in 137 cities and towns in 42 states, the Commonwealth of Puerto Rico and the District of Columbia.

The Pilot Project

This pilot effort will develop a national network of publicly accountable, nonprofit Mutual Housing Associations, as described above. The network would receive financial and technical services from the Neighborhood Reinvestment Corporation, as the present network of NHSs, AIPs and Mutual Housing Associations does[9]. The Corporation would develop and certify the Mutual Housing Associations.

Neighborhood Reinvestment would partially subsidize construction and rehabilitation costs with capital grants. Funds raised locally by private sources and state and local governments would match Neighborhood Reinvestment's capital grants dollar for dollar, on the average.

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[9] Technical services may be provided in such areas as staff recruitment and evaluation, staff training, legal responsibilities, bookkeeping and accounting, construction processes, marketing, occupant-member education, and temporary staffing should a vacancy in the executive director's position threaten the viability of the Association.

The pilot project envisages a gradual, carefully crafted build up of Mutual Housing Associations over the next five years, paralleling the Neighborhood Reinvestment Corporation's build up of Neighborhood Housing Services in the late seventies. As a result of the five year effort, over 25,000 units of new and rehabilitated housing will have been produced, and 145 Mutual Housing Associations will be on-stream, capable of continuing production of housing in the order of magnitude of 14,000 units annually.

Associations will produce mixed-income complexes, to avoid the ills of high concentrations of low-income households, with approximately the following mix:

- 20% of units for households below 50% of SMSA median household income,, with priority given to homeless families.
- 30% of units for households between 50% and 80%, and
- 50% of units for households between 80% and 120%.

The following costs will be associated with the pilot project: organizational development, technical services, matching operating grants and matching capital grants.

Projected Average Costs

Organizational Development:	$300,000/Association
Technical Services:	$30,000/Association/year beginning year after development
Operating Grants:	$50,000/Association/year with local and state government and private contribution match, beginning year after development (continuing five years). Associations should become self-supporting as they approach 1,000 units.
Capital Grants:	$25,000/unit.
Rent Subsidies:	Local governments provide vouchers or approximately $2,400/unit/year for 20% of units set aside for homeless families or others below 50% of median household income.

Projected Five-Year Pilot Costs and Results

Additional appropriations to the Neighborhood Reinvestment Corporation to carry out this pilot program would be: $28.8 million in FY 1989, $57.6 million in FY 1990, $112.2 million in FY 1991, $191.1 million in FY 1992, and $282.8 million in FY 1993.

As a result of the five year pilot effort, 145 Mutual Housing Associations and 25,000 units of housing are expected to be produced. The average cost to the federal government per unit of the housing produced will be approximately $27,000 per unit. If the pilot were extended, this average should decline incrementally as organizational development and support of early operating costs are spread over additional units. Because of the economies inherent in a front-end grant, the absence of revenue losses to the Treasury due to tax credits or accelerated depreciation, and subsidy costs being shared with local entities, subsidy costs to the federal government are a small fraction of those in past assisted housing programs.

The network of Mutual Housing Associations produced, located in areas of need throughout the United States, and backed up by Neighborhood Reinvestment's service network, will have the capacity for continuing production of new and rehabilitated units for lower income households, to the extent of internally generated capital and subsidy resources; and will have the capacity to continue, in perpetuity, operation of the units under their ownership for the benefit of the targeted population.

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October 6, 1987

Honorable Alan Cranston
Chairman
Senate Subcommittee on Housing &
Urban Affairs
Room 535, Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Cranston:

The Public Housing Authorities Directors Association is pleased to submit the attached document for your consideration in preparation for the development of comprehensive housing legislation.

PHADA is available to you and members of the Committee as you undertake this long overdue effort.

With best wishes,

Sincerely,

Floyd Carter

Floyd Carter
Vice President-Housing

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INTRODUCTION

The last several years have seen a retreat from any significant federal role in funding housing programs. The goal of a decent home and a suitable living environment for every American family is no longer evident in national policy. The rental housing situation for low-income Americans is approaching crisis proportions. A changing economy has created losers as well as winners, causing conditions of distress in many cities. Despite the physical improvement of the last 30 years, nearly 25 percent of renters continue to live in neighborhoods plagued by abandoned buildings, crime, or other undesirable conditions. The evidence of the emergence of an urban underclass poor, uneducated, unskilled, and with little or no hope of the future has evolved. While needs have increased, federal support has declined. New budget authority for the Department of Housing and Urban Development's assisted housing programs has been cut by over 70 percent since 1981.

PHADA recommends continuing existing programs to address the needs while beginning to develop longer term solutions. We cannot allow the poor and ill-housed to be further sacrificed because of the federal deficit. We must begin to rebuild the federal commitment to housing and to our communities before the problems overwhelm our capacity to respond. To accomplish these objectives PHA/DA supports legislative action in four major areas:

1. Preserve and use the existing housing stock (including the 1.3 million public housing units) by providing adequate funds for rehabilitation; adequate funds for maintenance, operations, and upgrading of substandard units.

2. Ensure that regulatory and legislative policies support rather than hinder effective program administration.

3. Increase funding for additional low and moderate income housing units funded by the Department of Housing and Urban Development and the Farmers Home Administration.

4. Develop new programs that will build a true partnership between the federal government and the state and local governments.

PHA/DA seeks to begin the process of developing a national housing policy that includes a continuing federal role in the commitment to a decent home and a suitable living environment for every family.

DEREGULATION/DECONTROL

PHA/DA calls for the creation of a committee or taskforce to provide input at the earliest of HUD rulemaking. This would also apply to other agencies involved in assisted housing regulation drafting. Members of such a committee/taskforce could provide federal agencies with practitioners' assessments of proposed rules, a view often lacking under the present system of publication, comment and adoption. By utilizing this consultative method, HUD and other agencies would avoid or eliminate much of the adversarial positioning now being forced upon public housing administrators. Congress would also benefit in not having constantly to veto HUD rules or admonish HUD on its rulemaking.

HUD and the public housing industry should review and identify those regulations that all too often are costly to the PHAs to administer and add nothing to providing decent, safe, and sanitary housing for our elderly and low-income population. HUD, Congress and PHAs should seriously examine new and creative proposals for future housing programs. No proposal should be ignored and creative thinking should be encouraged. No two PHAs are alike and customized local programming should be encouraged. Staff reduction without regulation reduction is in itself counterproductive and wasteful of time, people and dollar. HUD should adopt regulations which will reduce oversight of local PHAs.

HUD has started the process of decontrol of public housing authorities. This process should be expanded and accelerated to permit local governments to feel a sense of responsibility to local PHAs and a sense of ownership in the program. This must be achieved if there is to be a true partnership between the levels of government.

EDUCATION/WORK TRAINING

PHAs should be encouraged to innovate. The federal government can encourage PHAs through programs that provide incentives.

The cost to the federal government will be reduced if PHAs are allowed to become more self-sufficient via creative and aggressive management and development efforts.

One of the most troubling aspects of Public Housing communities is that of the growing dependence of our residents upon not only our housing resources but on federal welfare programs as well. Many PHAs have tried to address these issues. PHAs now operate or coordinate a wide variety of human services for their residents populations. The major thrust recently has been in the area of public/private efforts to provide educational resources, training and employment opportunities to residents. These efforts to assist residents in becoming self-sufficient and less dependent on the welfare system have been limited by the lack of resources and restrictive regulations that create disincentives.

A major part of future efforts should encourage residents to become self-sufficient. The PHA has the facilities in many cases and the local relationships to develop effective partnerships that can lead to many of our residents becoming self-sufficient. What is required from the federal level is a commitment to change and a true partnership with local PHAs.

PHA/DA recommends the following actions be taken to enhance the efforts of PHAs toward self-sufficiency:

1. Welfare reform efforts take into account the families residing in federal housing.

2. Regulatory changes be made in housing that would encourage residents to become more self-sufficient.

3. Current PHA program efforts to promote self-sufficiency should be recognized and resources made available to expand those efforts at the local level.

4. New demonstration programs be established within PHAs to promote educational and work training programs.

PUBLIC HOUSING RENTAL INCOME POLICIES

Current rental income policies prevent a Public Housing Authority (PHA) from establishing a reasonable balance between rental income and federal subsidy. These policies also frustrate efforts to maintain financially and socially stable projects while serving low-income housing needs. Current requirements limit residency in many projects only to very low-income families. Policies that limit deductions from income when determining eligibility produce inequities in serving families with equally critical housing needs. Abolition of ceiling rents negatively affects sound operations and the goal of maintaining social and economic integration in public housing. At a time when federal assistance to housing is being reduced, such policies also have forced PHAs into greater dependence on the federal dollar and have fostered an increased need for federal operating funds. PHAs need the opportunity to make optimum use of rental income as one resource to assist in efficiently and effectively meeting the housing and service needs of more than 1.3 million public housing families.

Current law restricts a PHA's ability to maximize income within overall program policy objectives. Legislative restrictions limit rents as a greater source of program funding and negatively affect sound program management.

Current law restricts admission to public housing to very low income residents (below 50 percent of area-wide median) except in projects built before 1981. Even before this policy was enacted, 95 percent of those in public housing were very low income families. Further targeting to the very low income population reduces a PHA's rental income base, thereby increasing the need for federal subsidy. It also threatens the social stability of the projects by eliminating opportunities for some social and economic integration.

Legislative restrictions also have remove income deductions for some households, penalizing low-income working families and the elderly, and creating inequities in program policy. Rents for the very low AFDC support families were reduced significantly while rents for the working poor and elderly families were increased. In many cases, permissable rents charged to the AFDC family are lower than the actual housing allotment calculated by the state agency administering the AFDC program, while working families pay in excess of 30 percent of take home pay for rent.

Prohibiting ceiling rents reduces housing opportunities for lower income families - those with incomes between 50 percent and 80 percent of the area-wide median. Many of these families are being forced from the program because of the high rents associated with a 30 percent rent-to-income ratio and the change in the deduction policy.

These standardized requirements for both income limits and rent determinations affect the PHA's financial operation as well as the overall management and social stability of the program. This combination of current policies works to force out lower income working families in need of housing. These families can help to stabilize the public housing program both financially and socially. Losing these families as tenants negates the intent of the 1974 Housing Act, which mandated housing families with a cross section of income, not just the very poor.

PHA/DA recommends the following legislative actions to allow greater flexibility in increasing rental income and in serving the needs of all low-income households.

1. Reestablish income admission limits at 30% of area-wide median income.

2. Authorize a ceiling rent for households with incomes up to 80% of the median income.

3. Authorize a minimum rent for families whose sole source of income is Aid for Dependent Children (AFDC). The current policies permit families to live in public housing and in some instance be paid by the PHA. This creates major disincentives for becoming more self-sufficient.

4. Reinstate a deduction for elderly families.

5. Establish a deduction for working families beyond the present deductions allowed to encourage families to seek employment.

PERFORMANCE FUNDING SYSTEM

While funding levels based on the existing Performance Funding System (PFS) are adequate under the formula, PHAs face extraordinary costs not accounted for in the PFS formula. These costs are creating financial difficulties for many PHAs. Unless there are major changes in the PFS formula, it will produce inadequate funds, severely affecting the ability for PHAs to deliver and maintain decent, safe and sanitary housing for the millions of low-income families who live in public housing.

The PFS formula approach was initially developed in the early 1970s around cost consideration that are no longer accurate in today's environment. Since then, such conditions as changes in tenant population or authority size (which raise maintenance and security costs) have resulted in higher operating costs. Moreover, PFS formula adjustments did not include routine capital replacement costs for standard items such as refrigerators and stoves. PHAs have had to rely on modernization funds which have been inadequate to cover these ongoing basic cost items.

Rising costs also reflect large increases in insurance premiums, while there have been excess PFS subsidy funds each year, HUD has not utilized the provisions of the PFS to provide payments for these costs beyond control.

In addition, changes in state and local mandates are not accounted for as increased expense items under PFS. Requirements of workmen's compensation laws, for example, can exceed the annual adjustment factors allowed in the original base year calculation. HUD identifies additional costs in these areas as "add-on" monies for changes in federal legislation or regulations, not state or local adjustments.

HUD has recognized that there are inequities in the system and proposed in 1982 to revise the equation to update the PFS variables. These changes were never implemented. A final rule was issued in November 1985, modifying the PFS, but the changes were not sufficient to correct the current problems. Program changes are needed now to enable PHAs to adequately maintain public housing and to meet the social service needs of the low-income families in that house.

More must be done in order to support the efficient management of the more than 1.3 million units of public housing.

PHA/DA recommends changes to the current PFS formula. While HUD made changes to the system in 1985, other changes are needed to balance the funding system:

1. A formal expense adjustment process is needed that will: (a) allow PHAs to recalculate those cost not covered by the initial PFS base year calculation; and

(b) allow annual adjustments for costs beyond control or other unforeseen factors affecting a PHA's operating budget.

2. The PFS formula should be adjusted to factor in the increased insurance costs that PHAs continue to experience.

3. The formula should be adjusted to provide PHAs greater incentives to encourage utility cost savings.

4. The formula should be adjusted for Target Investment Income to create greater incentives to reward good financial management.

5. The formula should be adjusted in the cost of providing security and social programs.

6. "Other income" should be eliminated from the operating subsidy calculation. This would encourage PHAs to be better managers and allow PHAs to realize additional income. Added income would assist PHAs in providing some maintenance services that have been reduced over the years because of the decline in federal dollars and changes in program policies that reduce income.

COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM

Continuing, adequate funding is needed to support he job of modernizing and improving public housing projects. Public housing in America currently provides affordable shelter for more than four million residents and represents an investment of $75 billion. To continue this service, public housing requires periodic physical improvement and the replacement of aging building systems. Since 1978, the Comprehensive Improvement Assistance Program (CIAP) has provided only part of the funds needed for public housing modernization.

The federal government has a responsibility to help ensure the maintenance of public housing units in decent, safe and sanitary condition, and to help provide public housing agencies with sufficient funds to carry out such maintenance. Modernization includes both the physical improvement of the current stock and replacement of building systems (such as heating and electrical).

Modernization is an effort to improve the quality of life for low-income families in public housing, reduce the reliance on obsolete building systems and to encourage efficient operations. Modernization is not a substitute for new development. Adequate levels of both modernization funds and new productions are necessary for public housing to carry out its mission. Despite a continuing commitment to improvement of the existing stock, the demand for funds has historically outstripped available resources. PHAs have been unable to obtain sufficient funding for comprehensive modernization. Projects not funded face continued decline in the number of habitable units and in living conditions for residents. A sound comprehensive grant system would allow PHAs to develop a rational plan for maintenance and improvement based on predictable funding levels.

The lack of a replacement reserve, coupled with less than adequate modernization funds, has led to a growing backlog of deferred maintenance even in sound projects.

Under the CIAP program, public housing authorities face an uncertain and worrisome future. The program is presently run in an unrealistic and irresponsible manner. No private landlord would be expected to make long-term commitments without having a good working estimate of what his future revenues would be.

Nevertheless, public housing authorities must make just such long-term financial commitments without knowing whether the Federal Government is going to continue to provide its share of the rent.

Furthermore, the amount of money made available for CIAP, has bounced up and down in recent years, with no correlation to actual CIAP needs.

PHA/DA recommends comprehensive grant legislation which promotes local flexibility and includes the following provision:

1. Multiple-year authorization to provide a predictable level of funding.

2. Funding levels that provide adequate resources for current and future modernization needs.

3. An equitable allocation system designed by HUD and approved by Congress to address actual funding needs.

4. A provision for transitional funding to ensure that older developments can be fully rehabilitated.

This operating subsidy will be paid, in addition to what is due to the PHA, as an operating subsidy for its routine operations under the PFS regulations. Expenditures made or scheduled to be made from the revenues derived from this additional operating subsidy will be subject to normal operating budget review procedures.

Interest income derived from the prudent investment of available revenues would be exempt from any recovery mechanism or reconciliation, but must be used exclusively for approved non-routine expenditures.

A revolving discretionary fund equal to 10 percent of the total U.S. annual distribution should be established and administered by the Secretary, as necessary, to support unforeseen local or regional needs which may arise.

The following cost-effective benefits will be achieved by the use of this formula distribution:

1. A predictable budgetary limit derived from existing funding mechanisms is achieved immediately for HUD, the PHA, Congress and ultimately the taxpayer.

2. Modernization, CIAP reserve for replacement, Emergency, Special Purpose or whatever a particular kind of funding is called, is consolidated into the operating budget review process, eliminating an untold amount of repetitive paperwork, staff time and other resources for both the department and the PHA.

3. A maximum degree of local autonomy, coupled with a prudent degree of federal oversight is achieved with both this distribution method and the operating budget review process.

4. The absolute dollar distribution from the department budget is adjustable pursuant to mathematical necessity, funding availability, congressional discretion and/or departmental requirements with a minimum of program disruption.

5. Competition among PHAs, the area office, the regional office and ultimately, the central office is eliminated with respect to a minimum and basic level of funding.

6. Extraordinary requirements are arguable at the appropriate departmental levels.

The existing system encourages waste. A PHA may know that CIAP funds for new appliances, refrigerators for example, will be awarded in year X. That PHAs present refrigerators may have three years' life expectancy remaining in the year X. Fearing funds will not be available in year X+3, the PHA applies for funding in year X and disposes of refrigerators in good operating condition. The above proposal would preclude a system that promotes waste and provides a cost effective and efficient replacement for the existing CIAP program.

RENTAL HOUSING PRODUCTION

PHA/DA supports the Housing Development Grant Program, the Rental Rehabilitation Program, and a continuation of the Section 8 Existing and Moderate Rehabilitation Programs. Above all, we support the continuing of traditional public housing production programs. We recognize, however, the need for creative and separate new construction programs to deal effectively with today's mounting housing crisis and its unique characteristics.

Federal policy is creating a rental housing crisis for the poor. At a time of growing need, federal policy is reducing the number of rental units available to lower income persons. The number of very low income families is expected to increase by 5.3 million dollars over the next 15 years.

The available data clearly shows that we are facing a rental housing crisis for low income persons.

This crisis is caused largely by the federal withdrawal from a substantial role in housing while the needs of the poor increase. New federally subsidized rental housing units declined by 80 percent between 1980 and 1987, while new public housing units declined by almost 90 percent. Existing subsidized units for the poor are also threatened. The General Accounting Office estimates that up to 90 percent of the 1.9 million privately--owned federally assisted rental units could be lost from the low-income rental housing inventory as project-based Section 8 Certificate contracts and federal mortgage prepayment restrictions expire.

The new tax law, by removing tax benefits from must of the existing low-income inventory, could contribute to the conversion of subsidized units to market rate units. The law also removed incentives for private investment in new low-income housing, replacing them with an untested low-income rental housing tax credit. And by reducing the overall supply of new rental housing, the resulting upward pressure on rents will particularly affect low-income households. Even a five percent increase in rents could outweigh the income tax benefits for lower income families.

The evidence is clear. The number of poor households is growing while the stock of decent and affordable housing is declining. Federal subsidies to produce low-income housing have plummeted. Without a change in federal policy, a worsening low-income rental housing crisis is inevitable.

NEW DEVELOPMENT ACTION GRANTS

City after city in the country is facing increased needs to supply housing for the low-income and working poor. It is increasingly difficult to achieve economic feasibility of housing developments. Growing waiting lists of eligible applicants and regulations restraining the working poor from housing assistance increase the pressure upon cities. The type of housing resources needed in these cities vary because of differing influences and availability.

In cities with tight housing market and an insufficient supply of rental units, program delivery systems are presently inadequate. In order to make better housing a reality for more citizens, particularly the lower income and working poor, and to foster greater reinvestment in people and cities, a new approach is needed.

The federal government should provide up-front grants to localities demonstrating housing shortages. Funding could require some level of local/state government or private sector matching. Such matching, however, must be kept low. Unlike Rental Development Grants, private landlords/developers would not be direct recipients of such funding and thus localities and private sources would be considerably less eager to contribute funding.

The local housing authority, on behalf of the local governing body it represents, would be responsible for the development, monitoring and certification of progress and completion. The local housing authority would also be charged with the responsibility of operating and with generating sufficient revenues to assure its on going function. The PHA would be required to establish and maintain replacement, maintenance, emergency and program operating reserves.

The local housing authority should be given the option of controlling tenant occupancy but under no circumstances should it place in initial occupancy families whose incomes exceed 80 percent of the median income of the city. Blended with other housing assistance programs, existing and new, the cost of operating a New Development Action Grant project will benefit greatly from economies of scale and inter-program coordination.

A federal recommitment to a viable housing production program must be made. The evidence is very clear.

TAX EXEMPT AND CREDIT ENHANCEMENT ALTERNATIVES

PHA/DA supports the use of tax exempt multi-family revenue bonds in the development of lease/options for single family homeownership. The program would operate without the use of any direct federal housing subsidies. The minimal cost to the Treasury from the tax losses by virtue of the sale of tax exempt bonds is made up by increased jobs, an improved local tax base and clear contributions to the local economy. The other costs of administration, construction and maintenance are built into the cooperative efforts of the PHA, private investors and the tenant families. The monthly payments of the tenants participating in this program are approximately one-half of the payment that would be required under a typical FHA 203b purchase program, with the tenant retaining all appreciation above the FHA appraisal at the time of leasing.

Using tax revenue bonds, new homes are constructed and leased to qualified families for a period of eleven years. At the time of leasing, families participating in the program buy options to purchase the homes for $3,000 or 5% of the purchase price, whichever is higher. This ensures the right of a family to purchase the home for a predetermined price at the end of the 11 year lease. The lessee's rent equals principal, interests, taxes, insurance and housing authority management fee. The lease payments are at or below the amount that would be required to rent the home on the open market, and are, in fact, lower than the federal contribution to similar assisted housing rents.

Credit enhancement is another development financing tool that appeals to PHA/DA. Credit enhancements are arrangements with third parties to provide additional security to bond holders for the timely payment of principal and interest on bonds. To achieve a AAA bond rating, the standard price is generally 1-1/2 percent per annum of the face amount of bonds issued. The credit enhancement method lowers the premiums to one percent of the face amount of the bond issued and can be retained by the issuer at the end of the bond period provided there is no default.

Programs such as revenue bonds and credit enhancements enable PHAs to blend moderate income families with lower income families, thus assisting more families for less money. The same concept of financing has even wider applications in straight income-blend rental programs. There are many successful variations of this theme being tried throughout the nation.

SECTION 8

Since its inception through the Housing and Community Development Act of 1974, as amended, the Section 8 Existing Housing Assistance Payments Program has proven to be a stable and acceptable program serving the needs of our disadvantaged, low-income senior, disabled and family population. Because Section 8 has demonstrated its utility, the new housing voucher program must not be used as a replacement program, but rather as a complimentary program designed to fit situations that cannot be addressed by regular Section 8. PHA/DA strongly supports the continuation of the Section 8 Existing Program, and in fact, requests enhancements to it by the way of HUD's close review and remedy of the following issues of concern.

Section 8 Existing/Annual Contribution Contracts

HUD has been amending and shortening the ACC renewal contracts that they execute with local housing authorities operating the program. PHA/DA strongly objects to this practice on grounds that this creates instability in the program. A certificate is for a fifteen-year contract while a voucher has only a five-year contract. The ACC renewal contracts for both are only being executed by HUD for a two-year period. The local PHA cannot plan operationally or financially, and is unable to properly advise either the owners or residents concerning the program. PHA/DA strongly recommends that HUD re-establish a fifteen-year commitment for certificates with a five-year ACC renewal contract.

Section 8 Existing Administrative Fees/Programs Duplication

The reduction in administrative fees by HUD from 8.5% to 7.65% has adversely affected the ability of PHAs to administer the Section 8 program in an effective manner. HUD's only rationale for this 10% reduction is to be consistent with other administration initiatives at deficit reduction.

The administrative fee reduction has created difficulties for PHAs especially for smaller housing authorities. Many were forced to reduce reserves and staff. Smaller PHAs are having difficulty operating the Section 8 program on a break-even basis. There are problems in providing all the services required under the program regulations. The additional reductions in Fair Market Rents have created a real financial crunch for PHAs because they are facing a double blow on their finances. The combination of reducing both the administrative fees and FMRs has produced a reduction in fees much greater than 100%. Many PHAs will, within the next couple of years, face severe financial difficulties because of these reductions. Any additional reductions by HUD would have a disastrous effect on all PHAs and their ability to continue to administer the Section 8 program. PHA/DA strongly supports the position that the Administration Fees be re-established at 8.5% and that the reduction in FMRs be withdrawn.

PHA/DA continues to believe HUD should reduce paperwork and regulation to permit local PHAs to have more flexibility and local determination. HUD should minimize overly strict regulations on verifications and other areas of Section 8 administration.

Finally, areas with state-run programs duplicative of existing PHA services have caused numerous local problems resulting from state intrusion into local areas with operating

PHAs. HUD should insist that state-run programs be limited to those areas where no PHA is operating a Section 8 program or coordinated to maximize limited resources.

Section 8 Portability

PHA/DA cannot support the "mobility" concept in the Section 8 certificate or housing voucher program without careful consideration being given to the following areas:

1. Administrative requirements; the proposed plan for dividing administrative fees appears burdensome and probably unworkable.

2. Local government acceptance, including movement to central cities or other higher welfare paying jurisdictions.

3. Local government authority; rights under each certificate/voucher annual contributions contract (ACC).

4. Community resources; does the receiving community have resources available? Can a PHA afford to lose certificates when it has long waiting lists?

5. Aggregated demand; HUD needs to assess the actual demand for portability and the cost-benefits of providing this option in currently operating programs.

PHA/DA would encourage state/region-wide demonstrations to measure the effectiveness, demand and cost of such an option.

Section 8 Fair Market Rents

The current method of calculating FMRs is based on the 45th percentile of all units in the market area. In addition, HUD has recently excluded rental data from outlying areas of primary metropolitan statistical areas (PMSAs) in its calculation of permissible rents. The overall impact of these changes has been to slow the pace of annual FMR increases. In the short run, this has caused program disruptions; however, PHAs are recognizing increasing difficulty in maintaining safe, decent and sanitary units in the program. The narrow margins now built into FMR schedules will cause serious program disruptions if any sudden shifts in the economy occur (e.g.,inflation), or if local rental markets tighten. HUD should go back to using a realistic definition of area market rents, utilizing market data that accurately represent FMRs in the area.

In addition to the impact of those changes in FMR computations, the inadequate annual adjustment factors drastically affect program viability. In tighter rental markets, routine market rental increases are exceeding allowable adjustment factors, thereby further reducing the stock of available housing.

PHA/DA objects to Section 8 FMRs being reduced and feels that the proposal should be withdrawn and FMRs should not be frozen. Additionally, HUD should publish annual FMRs to be effective at the beginning of each fiscal year. FMRs should be based on the most recent data projected forward in time so the FMRs will be current for the year in which they apply. The reduction or freezing of FMRs alienates private housers from participating in this program and expands already bursting public housing waiting lists. The reduction of FMRs or the failure of FMRs to keep pace with the market is limiting the ability of PHAs to operate effectively and, more importantly, denying low-income families housing in the private market.

Finally, the Department has a historical record of publishing rents and adjustments with retroactive implementation dates. This is both unduly burdensome and inefficient. Knowing that this information must be evaluated and revised annually, the Department should be able to provide this data in a timely manner.

Section 8 Income Eligibility

The provision in the 1981 Omnibus Budget Reconciliation Act that limits the number of new admissions into federal rent subsidy programs to those with incomes below 50 percent of the median, although designed to serve the needy applicant, has the following opposite effects:

-Negatively affect PHAs ability to operate financially viable programs, thereby increasing the need for additional federal subsidies and thus increasing the federal government's deficit;

-Reduces PHA's ability to successfully serve a broad range of equally needy citizens;

-Threatens the livability of housing development surrounding communities;

-Accelerated economic impaction of very low-income households into assisted housing projects - i.e., ghettos.

The likelihood that federal outlays for subsidies will be increased to compensate fully for this loss in rental income is rather remote, particularly in view of current deficit reduction efforts. Therefore PHA/DA recommends that income limits for new admissions be increased to 80% of the median income.

DESEGREGATION/INTEGRATION

Housing Authorities must be permitted the flexibility to use methods to achieve integration of housing that will be effective in that particular locality. HUD should continue to emphasize the enforcement of fair housing laws in the private market and HUD and PHAs should continue efforts to ensure the integration of public housing.

PHA/DA believes that a major joint objective of HUD and PHAs should be an open, frank, and unbiased discussion of all methods of achieving integration, including discussion of "tipping," integration maintenance policies, rent-up procedures, reasons for dual waiting lists, quotas, "over-under plans," refusal policies, and other controversial subjects.

PHA/DA believes that much new information is available, and more must be developed, to enable PHAs to write more effective integration policies and plans free from the previous prejudices expressed from all sides of this issue. PHA/DA believes there are no "sacred cows" untouchable in the discussion of developing effective housing integration policies and plans.

Integration of public housing projects may entail very considerable costs (relocations, administrative costs, preparation of new units, temporary vacancies, etc.) Such costs should be reimbursed by HUD via an authority's operating subsidy, or through CIAP set-aside.

We, the PHAs must initiate a new dialogue on integration methods, including maintaining housing integration.

TENANT MANAGEMENT

Public housing authorities today are faced with a wide array of pressures. Rising needs, combined with limited production, have created long waiting lists in many cities. Limited modernization funds and an inadequate Performance Funding System frustrate efforts to maintain and conserve the stock. In a highly regulated industry, local agencies must contend with complex requirements that can frustrate sound management. Additionally, public housing authorities are increasingly forced to act as social service agencies to address the economic and social problems of some residents - poverty, lack of education, lack of job skills, drug abuse, and teenage pregnancy. In this environment, good management is a critical resource which must be developed.

PHA/DA has historically supported tenant involvement in public housing management. Tenant participation can help link operations and services to needs of families who live in public housing. Tenant involvement can provide individuals with opportunities for work, job training, and participation in community decision making. In 1978, the federal government established the National Tenant Demonstration Program, providing financial and technical assistance for six PHAs to establish demonstration projects in tenant management. Studies concluded that tenant management can provide opportunities for resident employment, improve the quality of life, and increase access to social services.

The studies also revealed some potential problems. There may be significant resident resistance to implementing tenant management. Considerable time, patience, technical assistance, resident training, and PHA involvement are needed to make tenant management successful. Tenant management is not readily adaptable in the same format in all situations; its success depends upon specific local circumstances. While in some cases tenant management of a project is a sound choice, in other cases traditional PHA management is preferable.

Tenant participation in management can be a valuable resource to promote quality and efficiency in public housing. Tenant management can be a valid choice for sound management in a given project. However, tenant management is not inherently preferable to other forms of management , nor is it a solution to all problems facing managers of public housing. It is one more tool that can be used depending upon local circumstances and needs. Initiatives to improve public housing must promote good performance by all PHAs, not just those under a particular form of management. Good management practices should be uniformly supported and rewarded.

Legislation introduced in 1986 proposed to establish a national preference for tenant management of housing projects, without regard to local preference or management performance. Similar legislation to further tenant management has been introduced in 1987.

PHA/DA is committed to promoting the sound management of public housing in order to conserve the housing stock and improve the quality of life for public housing residents. The organization of management to achieve this goal can take different forms depending upon local circumstances and local choices. No one form of management is inherently better. Clearly, the local community should make this determination.

PHA/DA supports legislative initiatives to reward good management practices.

PHA/DA does not support legislative initiatives that assume any one form of management is universally superior, regardless of local experience, local preference, or the local situation.

HOMEOWNERSHIP

Actions in Congress indicated support for legislation establishing a "right to buy" which could lead to the large-scale sale of public housing units to residents and/or resident management corporations. Selling off public housing would eliminate a permanent source of housing for low-income families in this country at a time when low-income families face the worst housing crisis in decades. PHA/DA is concerned that the sale of public housing may lead to the federal government abandoning its commitment to maintain the public housing stock for low-income people.

There are several major problems with implementing homeownership opportunities for the very low income public housing resident. There are few tenants with incomes sufficient to meet and maintain homeownership demands, particularly large-scale repairs that might be needed a few years after sale. There is generally limited homeownership potential. Poor follow-up assistance typically fails to provide needed orientation and ongoing counseling to homebuyers.

In 1984, in an effort to establish a workable program, HUD initiated a Public Housing Homeownership Demonstration to study the concept of selling public housing to residents, and to identify potential problems and solutions. The demonstration has not yet yielded data on the feasibility of such sales, the accompanying problems, nor the best methods to address those problems.

Such a program would have a negative effect on maintaining public housing as a viable rental housing resource available to meet the growing housing needs of this nation's poor. PHA/DA supports homeownership for the poor but not at the expense of the desperately needed public housing stock. Public housing has continued to provide low cost housing for poor families for decades. With proper care it can continue to do so for decades longer.

PHA/DA supports homeownership opportunities for low-income families.

PHA/DA supports a homeownership program when the following provision are included to preserve the low-income housing stock.

1. No existing units of public housing should be removed from the rental housing stock without one-for-one replacement of units (unless the PHA determines there is no need for replacement).

2. A reserve fund or other mechanism for maintenance expenses ensures the program is workable for low-income families over time.

3. Counseling assistance and expanded employment opportunities are provided for participating low income families to further the opportunity to earn an income adequate to support homeownership.

4. Restrictions on resales prohibit owners from reaping excessive profits over a short period of time, and prohibits the use of properties as an investment for speculators.

5. The PHA is adequately funded to provide technical assistance and other services needed for low-income homebuyers.

HOMELESS

Documented evidence from various sources supports the position that the number of homeless individuals and families has been increasing for the past several years. The homeless are no longer stereotyped as white older males, generally with alcoholic problems, or as mentally disturbed individuals. The homeless population is now made of individuals and families from all age groups, all ethnic groups, and various economic backgrounds.

Besides those who can be readily counted as homeless because they are on the streets or in housing shelters designed for the homeless, we are faced with an additional problem: a substantial number of families throughout this nation are doubling up in our public housing units and actually should be classified as homeless. The doubling up of these families causes problems for the operations of the housing units and is a totally unacceptable solution to the problem of homelessness.

Congress has begun to deal with these problems through the Comprehensive Housing Assistance Program (CHAP). However, the solution must not be one-dimensional. what will happen after 18 months of transitional housing? Shelters and transitional housing cannot provide permanent housing for these families. The root cause of much of the homeless lies in the cutbacks in housing production programs.

PHA/DA strongly recommends that consideration be given to increasing our production programs and, in many cases, providing special types of housing for the homeless.

PHA/DA further recommends that consideration be given to immediate repair to vacant housing units that can be utilized by local communities and community agencies for emergency shelters of the homeless.

FARMERS HOME ADMINISTRATION

General Statement

The Public Housing Authorities Directors Association (PHA/DA) supports the Farmers Home Administration's single-family and multi-family programs. These programs provide housing for low-income families, especially those engaged in farm labor activities. The Farmers Home Programs provide scarce housing resources to a low-income population that has nowhere else to turn for safe and decent housing. As with any program, however, there is room for improvement. The following comments, with respect to income limits, and the high foreclosure rates on the 502 single family homeownership program, are intended as constructive suggestions for improvement in the multi-family/single-family programs.

Income Limits

PHA/DA objects to the establishment of income limits for admission into Farm Labor Housing. The traditional approach of requiring farm labor work is far superior. The income approach discourages families from reporting income, and also has the potential of reducing the much needed work force in farm labor areas. In addition, it is extremely difficult to verify farm labor income that varies widely from one year to the next, and from one crop to the next. Farm laborers may earn substantially higher salaries one year, and virtually nothing the next year. This fact alone would serve to create a great deal of instability, wherein families would qualify one year and not the next. Turnover would increase dramatically, and with it, the cost of administering the Program and maintaining the dwellings.

When the houses are constructed, they are "economically obsolete". Most of them can be "picked out" by passers-by with little or no difficulty. This built-in obsolescence makes it difficult, at best, for the owners to market the property and move on to other homeownership opportunities if the need arises.

Improvements are difficult to come by, given the relatively large expense to the family after occupancy. It would be far better to require houses that more properly fit into the mainstream of the communities into which they are built at the time of construction rather than rely on the families to add improvements thereafter.

The cost containment features built into the 502 Program, as well as in the 514/516 Loan & Grant Program, and 515 multifamily programs with the Farmers Home Administration are often counterproductive. These cost containment features increase maintenance costs by increasing density in the projects or subdivisions by undersizing sites and dwelling units. Homeowners are made to feel more like renters than owners, and renters in the 514/516 & 515 programs do not show proper respect for the complexes in which they reside, given the sterile nature of the projects. Without the proper amenities and aesthetics, people lack pride in their homes and tend not to maintain them. They are more likely to move off when economic difficulties arise, and are less likely to be able to sell the property for a profit, thereby cashing in on their equity.

High Foreclosure Rates on 502

The Single-Family 502 program is a tremendous resource to lower income families in rural areas. It allows families that qualify on the basis of income, and opportunity to own a home of their own, most, for the first time in their lives. The high default rate on 502 loans is not surprising, however, with the low equity investment of families in their housing, the lack of meaningful counseling and orientation on the responsibilities and benefits of homeownership and lack of amenities that are built into the housing itself.

Relatively small down payments increase default rates. This is the time for the 235 HUD Program, private housing sales, and the 502 Farmers Home Administration programs. Although it is desirable to lower down payments as means of allowing lower income persons into housing, there is an increased risk of defaults as well. Thought should be given to an increase in equity (cash) requirements.

Many families are rushed into homeownership without adequate, meaningful orientation and counseling as to the potential pitfalls and consequences. This is, in part, due to economic motivations on the part of hard-working developers who want to sell more houses. Some thought should be given to "beefing-up" the counseling requirements through third party, independent counseling agencies that can adequately advise the perspective buyers.

But in our opinion, the lack of amenities built into the properties is the most serious cause of the excessive defaults that occur.

Provided there is value (equity) they are more likely to not default on loans. The sad fact is that many 502 properties tend not to appreciate due to their built-in obsolescence. Many families find this unacceptable after a time, and default on the mortgages.

To develop pride of homeownership and stability of the neighborhood, the cost containment features must be re-though so as not to make the properties economical obsolete before the are built.

Farmers Home Administration Programs are a major resource of which this Country should be proud. We would encourage policy-makers considering funding levels for the FmHA Programs to bear this fact in mind, and at the time, take a long-term view of rural housing resources considering not only the value of the assets at the time they are constructed, but the long-term effects on the individual families housed in the units. Short-sighted cost containment features in FmHA programs cost the taxpayer much more in the long run.

Accredited Housing

PHA/DA believes the concept of peer group PHA accreditation to be viable, within well-established and controlled guidelines. HUD has stated that 90 percent of all PHAs are effectively managed and efficiently operated. These PHAs should be identified and accredited. The purpose of accreditation is to reduce HUD monitoring of effectively managed and efficiently operated authorities, thereby allowing HUD to concentrate its limited personnel and dollars to more effectively assist those authorities, with problems. This would result in reduced costs for HUD and all PHAs. For those PHAs unable to qualify initially for accreditation, peer group technical assistance could be made available if warranted and voluntarily requested by the troubled PHA.

We believe legislation would be required for the establishment of any accreditation program to ensure well-defined responsibilities as well as to designate the make-up of the accreditation committee. Funding for such a committee should be provided in the legislative package. Requests for technical assistance should draw upon a pool of well-qualified PHA experts in PHA operational disciplines such as finance, housing management and maintenance. From PHA/DA's own experience, PHA Executive Directors attending our training sessions and conferences have gained more from opportunities to compare program notes and ideas with fellow practitioners than from any published set of rules, guidelines or advisories.

PHA accreditation should not be another federal stick to be held over the heads of troubled PHA managers. The threat of sanctions should not be allowed by either the committee or HUD. the purpose of accreditation would be to guarantee a management review process that will allow qualified people to critique areas of property management of which they are very knowledgeable and to provide HUD access to impartial information that it can utilize for whatever purposes are warranted. Technical assistance offered should be directed toward the particular problem area, not necessarily toward all elements of PHA management. For instance, if rent collections are a problem, this would be the area of concentration. Maintenance of units, as another example, may involve both physical maintenance and housing management.

The accreditation committee should be composed of PHA management peers with representation from small, medium and large PHAs, as well as HUD Housing Management personnel and possibly congressional staff. Lack of accreditation should not result in delays in operating budgets, reduced funding or audits designed to discredit management. Rather, the thrust should be towards problem identification and management improvement.

Finally, an accreditation panel could bring to HUD's attention those areas of HUD's own operations that are in themselves, wasteful and mismanaged in a cooperative effort to streamline delivery of ever-shrinking resources. PHA/DA commends HUD's past efforts to improve its administration and we are eager to work further along these lines. The recent PHA/DA-HUD Committee on Fraud, Waste and Mismanagement joint survey of PHAs and HUD field staff is an example of possible future activities.

Farmers Home Administration Programs are a major resource of which this Country should be proud. We would encourage policy-makers considering funding levels for the FmHA Programs to bear this fact in mind, and at the time, take a long-term view of rural housing resources considering not only the value of the assets at the time they are constructed, but the long-term effects on the individual families housed in the units. Short-sighted cost containment features in FmHA programs cost the taxpayer much more in the long run.

SUMMARY

Over the last seven years the federal government has withdrawn from the commitments it has made historically to provide housing for low-income families. The expectation was that state and local governments would assume this responsibility along with the private sector. The state and local governments have not been able to fill this void. There has clearly been an increase in the number of low-income families who are in need of affordable housing evidenced by local waiting lists. Additionally, the number of homeless families has increased greatly during this period of federal withdrawal.

Many state and local governments have increased their level of commitment and involvement in housing for the low-income persons. However, state and local governments across the country, especially in smaller communities, have not been able to address the housing problems of low-income persons.

PHA/DA strongly recommends that there should be a federal recommitment to low-income housing based on a partnership with state and local governments. There has been in many communities a heightened awareness of the housing problems. The federal government must provide the leadership for a housing policy that promotes partnerships with the state, local government, and the private sector.

The ability to address the housing needs requires a renewed effort among all levels of government and the private sector. The one essential ingredient to a successful housing policy is a commitment by the federal government to be a full participant in the partnership.

Statement by

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on behalf of

Department of Social Development and World Peace
United States Catholic Conference

on

FRAMEWORK OF HOUSING POLICIES

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The Catholic community in the United States recognizes a responsibility to help meet the needs of those who lack adequate housing. Our dioceses and parishes, Catholic Charities-USA, Religious orders and Catholic organizations have played varying roles in our commitment to serve those suffering from poor housing. With its roots deep within the community, the Church has played a critical role in advocacy, construction and maintenance in both the public and private housing efforts to alleviate the shelter needs of people.

The Church alone cannot provide a significant quantitative answer to the cries for better housing. This is not its specific role, nor does it have the financial and technical resources to build all the required homes. However, because it is our responsibility to proclaim the Gospel of Jesus Christ and its implications for our society, we must point constantly to the human rights dimension — and suffering — involved in this issue. We must apply Christian social teaching to the resolution of the problem. We must seek to have a qualitative impact on housing deprivation in our society by attempting to change the systems and policies that result in so many of our sisters and brothers suffering from inadequate housing.

Twelve years ago, in November of 1975, the United States Catholic Conference in a pastoral response to the crisis in housing pointed out:

> The United States is in the midst of a severe housing crisis. This is a broader, more pervasive and more complicated phenomenon than the customary photographs of urban slums and rural shacks indicate. It involves more people, more neighborhoods and communities than was thought to be the case even a few years ago. It touches millions of poor families who live in inhuman conditions, but it also involves many middle-income families whose ability to provide themselves with decent housing is being painfully tested. Rising costs of shelter, maintenance and utilities—as well as high interest rates and regressive property taxes—are forcing many families to live in inadequate housing or to do without other basic essentials. Other low- and middle-income families have been confined to neighborhoods without adequate services, minimal safety or necessary community life.

The severe housing crisis addressed by the bishops in 1975 has become a disastrous shambles in 1987. The harsh and frustrating reality is that governmental policies of the past ten years have, in effect, reneged on the promise of "a decent home in a suitable living environment for every American family" that was set forth by Congress in 1949. The drastic decline in funding for HUD low-income housing programs has condemned millions of American families to live in poor housing, with tens of thousands of families swelling the ranks of the homeless. These deplorable conditions have forced churches, social service agencies and public institutions into stopgap efforts to develop "temporary" shelters and funding programs while no long term policy is even envisioned.

Our Catholic tradition has long held, indeed insisted that shelter is one of the basic human rights of the person. Our faith teaches that these fundamental rights are "the minimum condition for social institutions that respect human dignity, social solidarity and justice. They are all essential to human dignity and to the integral development of both individuals and society, and are thus moral issues. Any denial of these rights harms persons and wounds the human community. Their serious and sustained denial violates individuals and destroys solidarity among persons." (*Economic Justice for All*, #80).

We believe that each individual possesses inherent dignity and priceless worth because he or she is created in the image and likeness of God. We cannot ignore the terrible impact of degrading and indecent living conditions on people's perception of themselves and their future. Where and how a person lives impacts on education, employment, voting and other civic and social relations. To the extent that the rights of individuals and families are violated in the area of housing opportunities, they are affected across the full range of civil rights.

National Housing Goal

We have cited the national housing goal of 1949 and noted that it has not been met. In fact, it appears to have been abandoned. We call upon the both the Executive and Legislative Branches of our government to recognize housing as a human right and to build our national priorities on this entitlement. Such recognition would require that a decent home and a suitable living environment be within the means of every American family. The cost of housing, an apartment or home, should not deprive families of other essentials. Also, our housing goal must provide freedom of choice as to where families will live and whether they will rent or own their homes. Equal housing opportunities and the possibility of home ownership for those who desire it have to be integral components of our national housing commitment.

The achievement of these housing goals will require a reordering of priorities and a substantial increase in expenditures for housing and community development. We are not so naive as to believe that the complex problems we now face in housing will be easily solved. The problem is truly overwhelming. It touches on nearly every facet of our economic, political, and social life, all of which are complicated in themselves. We will need cooperation and collaborative structures at the private and public level to creatively and courageously deal with this immense problem. A realistic appraisal of our housing needs indicates that the resolution of our present crisis will be expensive and difficult.

Dimensions of the Housing Problem

The overwhelming need for housing, in many ways, is an institutional problem. It reflects the limitations built into our political, economic, and social institutions. Effective action for better housing will depend on a competent analysis and significant changes in the structures and policies that have helped create and maintain our current housing delivery system. Our present way of financing and building housing seems not to lend itself to the resolution of our problems. The traditional law of supply and demand has not proved adequate to the task of providing decent housing for all our people. The demand is present and growing, yet the response is clearly inadequate, especially for low and middle-income people. The right to shelter and the corresponding obligation of society to provide access to housing for every person, establishes a relationship between the person and both the direct and indirect suppliers of shelter. The relationship between direct and indirect suppliers of shelter and the availability of housing to persons and families is a very important concept in the extremely complex and often technical field of housing and community development.

The direct supplier of housing is the owner, builder, or the institution controlling housing stock within the prescribed conditions of society. The indirect supplier must be understood as the many different factors, other than the direct supplier, that exercise a determining influence on the construction and/or availability of decent housing. This concept of indirect supplier includes both persons and institutions of various kinds which determine the whole socio-economic system. The federal government, state and local governments, banking and secondary mortgage markets are all examples of indirect suppliers. It obviously involves many elements.

It is easy to see how this framework links the various political, economic and social institutions of society into an interdependent network needed to assure and respect the right to shelter. But it also points out the variety of competing interests: private enterprise and government; maximum production, environmental and consumer protection; primary and secondary money markets; housing needs and budgetary restraints; public interest and private gain; and the question of equity and efficiency.

Housing Issues

1. Housing and the Economy

The solutions to the housing problem are often stated in economic terms. The current policies rely almost entirely on the fluctuations of the economy. Critical economic times of inflation or recession are often cited as the reason for housing shortages. Yet, the last forty years have exhibited serious housing problems and periods of unparalleled prosperity. Presently we are in a five-year economic expansion and the number of homeless people multiplies monthly. The problem persists in good economic times and bad. Economic recovery alone cannot and will not solve our housing problem. A number of factors influence the housing market. Declining production, shrinking real income, and the tendency of builders to produce higher priced homes have severely limited the number of homes available to middle- and moderate-income families. The price of a median home was $23,400 in 1970; $39,900 in 1975; $75,300 in 1983; and $110,000 in 1986. The median family income, however, has not kept pace with these increases. The current level of income is comparable to the median family income of 1978. Indeed, compared to the 46% increase in housing costs since 1983, the 11% increase in family income is quite insufficient. Low-income families face even bleaker prospects. Their rents and utility costs are climbing, and many have virtually no place to go but the streets. Federal funding for subsidized housing has been substantially reduced since 1981 when Congress authorized $30.2 billion for that purpose. In 1987 this funding level was only $7.8 billion.

Money markets are another important economic factor. Continued high interest rates substantially increase the cost of housing. Disinvestment from many communities has destroyed many neighborhoods resulting in more structures being taken out of the housing market. While this practice by banks and savings and loan associations has been curtailed in many locations, it persists in the increasingly influential secondary mortgage market. National monetary policy must ensure an adequate supply of affordable credit through secondary markets and housing trust funds for socially desirable purposes such as housing.

Land speculation is a particularly vexing problem. Where basic human rights are involved, one person simply must not take an unreasonable gain at the expense of another. High increases in the cost of land, resulting in part from such speculation, seriously impairs efforts to provide affordable housing to people of low- and moderate-income.

The demand for land to meet a variety of competing growth needs, such as urban expansion, highways and mineral developments, parks and recreation, is forcing upon us difficult decisions with respect to land use and control of our resources. Such decision holds consequences for all the people of this nation; they should involve a degree of public participation. Legislation is urgently needed to facilitate wide participation.

Serious consideration should be given to the development of land trusts and mutual housing associations and cooperatives which promote the ownership or control of land and housing by low-income people. The federal government must not only regulate and contribute to such efforts, but ensure that all segments of the local community are part of the decision making.

2. Community and Neighborhoods

Housing conditions cannot be separated from the surrounding environment. Community cohesiveness, education, safety, government responsiveness, and taxation policies are critical factors in the creation and maintenance of decent housing. This is true in both the rural and urban areas.

In rural areas and small towns the housing delivery system is inadequate. Many rural counties have no public housing agency. Nor are there sufficient construction or financial institutions to make private development feasible. Rural people and rural communities must be provided with assistance and resources that enable them to solve their housing problems.

Urban areas suffer many of the same problems, in that our cities are composites of small communities. Local neighborhood concerns have been lost in centralized decision-making, suburban migration, and deteriorating city services. A psychological and physical process of abandonment has set in, and fewer resources and fewer people have been available to assist neighborhoods in combating blight and indifference.

Communities, whether urban neighborhoods or small towns, are the most logical basis for a positive housing policy. People must feel and actually be in control of the tools and resources necessary to survive. Public policy must recognize and support such efforts. Rehabilitation and housing maintenance programs which are innovative, imaginative, and economically feasible should be encouraged and implemented. The existing housing stock is perhaps the largest single component of our national wealth. Its preservation is an essential and economical approach to meeting our housing needs.

3. Governmental Housing Activity

The federal government acts as both a direct and indirect supplier of housing. Through its economic and taxation policies, regulation of the money markets, as well as housing subsidies and public housing, it has a major influence in the housing field. With this influence goes a major responsibility to harness and direct a massive commitment of resources and energy. Government must supplement and regulate the activities of private individuals and institutions in order to achieve our housing goals. A creative partnership of neighborhoods, private enterprise and government is necessary. Public agencies have a particular responsibility to aid those in need, voluntary efforts fall far short of the present demand.

Government must develop a comprehensive housing and community development policy. This includes fiscal and monetary policies that have such a dominant influence on housing. The rise and fall of inflation, employment and productivity, if left solely to the market forces, have a pronounced effect on the availability of housing. Likewise, monetary policy, the availability and rate of credit, are critical factors in the housing market.

The tax system is the largest housing activity of the federal government. It consists primarily of the deduction of mortgage interest by homeowners. While recent tax changes have made the system a bit more progressive, it remains that the higher a person's income, the more likely it is that he will be entitled to this kind of subsidy and the higher that subsidy is likely to be. While the objectives of these policies are to achieve desirable social goals (i.e., homeownership), they do raise questions of equity that must still be addressed through public policy.

Public housing is the oldest direct housing subsidy program. Begun in 1937, it provides for building, buying, or renting housing by local housing authorities. Severe reduction in funding for both construction and maintenance has all but destroyed this program. The most recent attempt to supplant this program with a "housing voucher" is a woefully inadequate approach given the extreme shortage of low-income housing. The federal government must renew its role and fulfill its obligation as provider of last resort. Public policy must be developed to maintain and construct public housing that is small in scale and locally based.

State and local governments must also be encouraged, by federal policy where necessary, to use their resources, housing finance agencies, and community affairs departments to provide adequate housing for poor and low-income people.

Conclusion

The complexity of the housing situation from the numbers of people and communities involved to the number of factors impacting on the availability of housing points to the magnitude of the effort that must be mounted to overcome our housing needs. Our greatest obstacles are apathy, indifference and will. All members of society — individuals, private enterprise, neighborhoods, local and state governments, social and religious organizations, must be seen and used as vehicles for a comprehensive federal policy. Responsibility has been passed from one segment of the community to another for too long. Shared responsibility, coordination and cooperation should be the mark of our housing policy.

Government must develop public policy based on the right to shelter and form a strategy that is comprehensive and complementary. It must:

- expand the supply of assisted housing;
- preserve and modernize existing assisted housing units;
- target federal programs and expenditures for the benefit of low-income persons; and
- develop resources for emergency and transitional housing while permanent housing is being built.

For our part, we pledge our support to those who carry out the demand of the traditional corporal work of mercy, "to shelter the homeless." Pope John Paul II, commenting recently in Rome on the widespread lack of proper shelter, said that it is "a reality of the utmost seriousness" that "disturbs the conscience of all those who are genuinely sensitive to the aspirations and rights of every human person." We have faith in the basic values of people. We believe that once they understand the nature and extent of the housing problems and their moral responsibility, they will respond and support those policies that meet our long-term housing needs. They believe, as we do, that every person has a right to a decent home in a decent environment.

What we are proposing is a long and determined effort, with all its frustrations, toward a better life for millions of Americans. The task is more than an element of a better society or an aspect of the common good; it is indispensable to the future health of America and its people. We pledge our continuing efforts as this nation sets out on the long road that offers lasting hope for decent shelter to the people of our land.

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RECOMMENDATIONS FOR
A
NATIONAL HOUSING POLICY

Submitted by the U.S. Conference of Mayors
to the
U.S. Senate Subcommittee on Housing & Urban Affairs

October 5, 1987

CONTEXT OF POLICY RECOMMENDATION

- Our overall goal is restoring the federal commitment to meet the affordable housing needs of all of our citizens, particularly low- and moderate-income Americans.

- To reach this goal, we suggest the two-pronged policy of: 1) preserving the existing stock of low-income housing, both public and privately-owned, and 2) intervening at the neighborhood level to:

    a) curb disinvestment in low-income housing;

    b) stem deterioration;

    c) promote neighborhood revitalization which provides new affordable housing opportunities and encourages economic and racial integration; and

    d) prevent gentrification from reducing the supply of low-income housing units.

- We are proposing the creation of three new national housing funds--one for public housing ("Public Housing Assistance Program") and two for subsidized privately-owned housing ("National Housing Trust Fund" and "National Community-Based Housing Partnership").

- The majority of National Housing Trust Fund monies should be allocated as entitlements directly to local governments on the basis of need and the capacity to carry out the program goals. The balance of funds would be allocated to states for use in non-entitlement areas or in areas not receiving entitlement.

- The National Community-Based Housing Partnership would provide federal matching grants to local governments and non-profit housing groups to build and rehabilitate affordable housing.

- In addition to our proposals for new permanent financing, we propose the preservation of existing urban programs, particularly CDBG, Rental Rehabilitation, Section 202 (elderly and handicapped), Section 312 Rehabilitation loans, Section 8 Moderate Rehabilitation, UDAGs and HoDAGs. We don't want to lose the old for the sake of the new; instead we want Congress to return to the preeminent federal funding role for low-income housing. We propose, however, revisions to existing programs that will improve their effectiveness at the local level.

This recommendation has eight sections:

I. Housing Crisis: Facts and Figures Page 3

II. Creation of a "Public Housing Assistance Program Page 4

III. Creation of a "National Housing Trust Fund" for subsidizing privately-owned housing Page 5

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I. HOUSING CRISIS; FACTS AND FIGURES

Crisis Indicators

Housing costs have accelerated almost three times faster than incomes in the past 15 years.

One out of seven Americans live below the poverty thresholds.

One-quarter of the poor pay over three-quarters of their income for rent.

Of the total of households receiving welfare assistance, 30 to 60% live in substandard housing.

The number of families seeking emergency shelter has increased by 31 percent in the past two years.

There are about 44,000 persons on the public housing waiting list in Chicago, 60,000 in Miami, 200,000 in New York City, 23,000 in Philadelphia and 13,000 in Washington.

Homeownership in this country has declined annually since 1981, following 35 years of steady increase.

In 1949, the average 30 year-old homebuyer needed to spend 14% of his paycheck to afford a typical home. By 1985, this figure had risen to 44%.

Federal Response: Waning Support

Since 1981, HUD's housing programs have been cut from over $33 billion to under $8 billion -- a 76% cut.

Since 1981, the number of new federally-assisted units has plummeted from more than 200,000 to about 25,000.

Between fiscal years 1981 and 1987, CDBG was cut by 34 percent in real terms.

Each year, 70,000 units of public housing are abandoned, the victims of neglect and slashed rehabilitation budgets. Thousands of additional units are uninhabitable because of insufficient funds to provide basic maintenance or modernization.

Between now and the year 2000, most of the 1.9 million publicly assisted units will be "at risk" as subsidies and/or use restrictions expire. Between 200,000 and 900,000 units may be lost by 1995 alone.

II. PUBLIC HOUSING ASSISTANCE PROGRAM

A. The Problem: Neglecting a $65 billion investment in Public Housing

Current public housing programs and funding levels reflect a profound indifference to the magnitude of public housing problems in our country. The nation has a $65 billion investment at stake. Yet, years of neglect are taking their toll on the diminishing stock of public housing. The price tag for modernizing the existing stock of 1.3 million units is $21 to $25 billion nationwide, according to a recent study by Abt Associates. As any responsible property owner knows, deferred maintenance leads to abandonment and eventual demolition. Public housing is no different. Each year, 70,000 public housing units are being abandoned, according to HUD Secretary Pierce's own estimates. Clearly, this level of abandonment stems from neglect rather than a reduction in the sheer number of Americans needing housing. Local housing officials report growing gaps between supply and demand: 44,000 on the waiting list for public housing in Chicago, 60,000 in Miami, 200,000 in New York City, 23,000 in Philadelphia and 13,000 in Washington, D.C. These numbers fail to reflect the thousands of others who don't bother to sign up, knowing the surrealism of the length of the wait.

B. The Proposal: Creation of a Public Housing Assistance Program

The U.S. Conference of Mayors proposes the creation of a Public Housing Assistance Program to restore the federal commitment to public housing. Adoption of this proposal recognizes that:

- public housing needs are comprehensive. They encompass capital costs for maintenance, modernization and new construction, as well as operating costs for public housing authorities;
- in building new public housing, mixed-income developments and scattered site construction are preferred as they foster a positive housing environment and eliminate negative stigma attached to public housing;
- implementation of this policy for new construction should in no way mitigate against the preservation, i.e., maintenance and modernization, of the $65 billion investment in preserving existing public housing.

C. This new program encompasses three separate funds:

1. The $25 Billion Public Housing Superfund to preserve the existing stock by catching up with the backlog of deferred maintenance in 1.3 million public housing units nationwide. The Conference of Mayors recommends a funding level not less than $5 billion annually for five years.

2. A Modernization Fund to finance ongoing maintenance and modernization of public housing units apart from catching up with the backlog. This Fund would be targeted to those units currently in habitable condition, but in need of constant and regular maintenance.

3. An Operating Fund to meet the full range of operating expenses of public housing authorities. The current approach to performance funding falls far short of genuine operating expenses.

   To overcome this problem, funding levels from the Operating Fund would be revised annually, such as is the current practice in the Section 8 program, to accommodate rising housing costs and inflation factors.

III. NATIONAL HOUSING TRUST FUND

A. THE PROBLEM: LOST COMMITMENT TO PRIVATELY-OWNED AFFORDABLE HOUSING

America faces an affordable housing crisis in which millions lack the money to pay for decent, safe and sanitary housing, while the federal government cuts subsidies to make up this difference. This housing crisis centers on the private market, where rental subsidies have dried up, supply programs have been eliminated and escalating rent levels are driving tens of thousands of Americans into the streets. Perhaps the most ominous feature of this crisis is yet to come: the pending expiration of two kinds of federal programs developed in the 1960s--mortgage and Section 8 subsidies. As many as 900,000 units of federally subsidized but privately-owned low-income apartments could disappear within the next decade.

Low-income housing tax credits and other federal provisions enhance the attractiveness of low-income housing investment for certain groups and corporations. However, time will tell whether this new approach will provide a net gain in the level of low-income housing investment, as against former investment incentives.

For several years, federal funds for a low-income housing supply program to prime the private market have been almost non-existent. In spite of this cutback, local (and some state) governments have struggled mightily to develop public-private partnerships to help fill this gap. Yet, low-income housing providers bear no false expectations: absent federal funds, local governments cannot meet their production needs for low-income housing no matter how innovative and successful their local partnerships.

There is a consensus building among many local government leaders that the only permanent solution to this crisis lies in some form of off-budget financing vehicle for a low-income housing production program and rental subsidies.

B. THE PROPOSAL: CREATION OF A NATIONAL HOUSING TRUST FUND TO SUBSIDIZE PRIVATE HOUSING

The U.S. Conference of Mayors proposes the creation of a National Housing Trust Fund to provide a permanent, renewable resource for low-income housing, which would be shielded from the uncertainty of annual Congressional budget battles. This new Fund would be allocated through entitlement on the basis of need and capacity directly to local and state governments and/or local housing trust funds. The Fund would be targeted to meet the capital costs of production and the need for rental subsidies.

The Fund should be capitalized at a level large enough to make an impact nationwide in the production backlog. We are recommending an annual production level of 350,000 housing units, at a cost of $2 to $2.5 billion.

The new Housing Trust Fund would provide the following benefits:

- carry forth the two primary policies of the Conference's National Housing Policy: preserving the existing stock of low-income housing and funding local governments to intervene at the neighborhood level to reverse the tide of disinvestment, deterioration and/or gentrification by stimulating affordable housing production and balanced revitalization.
- demonstrate to private investors that the public partner is committing resources necessary to meet the public

obligation as a full partner and to encourage the participation of additional corporate partners;

- generate additional private equity for projects developed in conjunction with not-for-profit organizations;
- provide a range of sponsorship opportunities at the local level including public housing authorities, community development and housing agencies, and not-for-profit and for-profit corporations;
- provide flexibility and control at the local level for determining how to most effectively use allocations from the entitlement programs funded by the Trust Fund; for example, monies could be used in tandem with below market rate mortgage programs and the Rental Rehabilitation Program to provide a comprehensive approach to acquire and rehabilitate low-income properties, such as is the current practice in the Urban Homestead Program;
- minimize waste and redundancy by earmarking Trust Fund monies to communities based on need and capacity;
- leverage monies to generate at the local level by capitalizing on indigenous local private-public partnerships; and
- (if capitalized by an off-budget financing vehicle) avoid the uncertainty of the Congressional budget process in earmarking Trust Fund monies for entitlement programs.

This Trust Fund would complement the portfolio of existing low-income housing assistance programs such as Rental Rehabilitation, Section 312 Rehabilitation Loans, Section 8 Moderate Rehabilitation, Section 202 Elderly and Handicapped, HoDAGs and UDAGs, as well as the CDBG Program.

C. SPECIAL PROGRAM FEATURES OF THE NATIONAL HOUSING TRUST FUND

The National Housing Trust Fund is designed to finance special housing needs such as implementing a comprehensive program to fight homelessness, finding new ways to cut the cost of producing low-income housing, and supporting local initiatives which promote balanced neighborhood revitalization.

1. Implementing a Comprehensive Program to Fight Homelessness

The homeless are our nation's most dramatic--and visible--affordable housing problem. It is estimated that between 300,000 and three million Americans are homeless today. The homeless are not a low-income problem. They're a no income problem. Solutions don't lie in only building emergency shelters. Building emergency shelters is a band-aid approach. Like our misguided policies, it treats the symptoms, not the cause. These shelters are necessary, but they're not sufficient. Instead, solutions lie in attacking the problem comprehensively.

To some extent, Congress recognized the scope of this problem in passing the Steward B. McKinney Homeless Assistance Act. This bill authorized $443 million for a fairly broad range of assistance, from emergency shelters to education for homeless children.

However, even this approach falls short. Funds for the homeless are subject to the whims of the annual budget process. What better illustration of the vagaries of Congressional funding than the current status of appropriations for the new homeless legislation. The new bill "authorized" funds for two years, including an approval of $617 million for FY87. In reality, only $355 million has been appropriated for FY87. The ink was barely dry on the homeless bill when the House Appropriations Committee sat down to consider its FY88 allowances. Yet, members budgeted no funds at all for the homeless housing programs, despite an authorization of $280 million for FY88.

Clearly, a more permanent solution is needed to treat all three components of the homeless problem:

1. Increasing the supply of new shelters and permanent affordable housing;

2. Providing rental subsidies, such as Section 8 certificates, to plug the gap between income and expense; and

3. Instituting social programs to confront the causes of homelessness and re-integrate the homeless into society. (In this regard, the U.S. Conference of Mayors recommends a "Living Skills" and other community responsibility education programs).

The new National Housing Trust Fund would be designed to finance the shelter and the rental subsidy needs of the homeless, and would implement social programs aimed at the causes of homelessness.

2. Promoting Low-Cost Construction Technology

Supplying decent housing to our lowest income residents is often characterized as either an "affordability" issue or a "supply" issue. In fact, it is both. While deep subsidies (as were provided by the Section 8 program) are desperately needed, sufficient units do not currently exist to meet the needs of lower income people, even if subsidies were available for all of them.

The costs of providing new housing continue to escalate at such a rate that it is highly unlikely that sufficient subsidy funds can be made available to keep pace. Any realistic federal housing policy must, therefore, include provisions to reduce the cost of producing needed housing.

Modern technology offers us many opportunities. Manufactured housing, in all its various forms, can achieve significant reductions in the cost of producing housing, and can make housing more efficient to operate through use of energy-efficient materials and design.

The role of the federal government in promoting low-cost housing construction technology has long since been established through such programs as Operation Breakthrough. More recently, HUD has been supporting the Joint Venture for Affordable Housing (JAVH) which has the objective of encouraging localities to adopt new construction techniques. Unfortunately, all HUD is offering through this program is technical assistance and potential waivers of its minimum property standards for approved projects so that purchasers can qualify for FHA insurance. Clearly, much more is needed.

A pool of federal dollars must be made available to assist localities which undertake housing construction initiatives aimed at lowering the production costs of new housing for our low- and moderate-income residents. The National Housing Trust Fund would provide such a pool.

3. Providing Federal Support for Local Initiatives which Promote Balanced Rehabilitation

The dwindling supply of affordable housing units is caused as much by the inflationary spiral of current rents as by the cycle of deferred maintenance, abandonment and demolition of low-income units. These rent spirals are often ignited by public and private efforts to revitalize deteriorating neighborhoods. As neighborhoods gentrify, rents often rise to such a degree that rental subsidies fail to bridge the affordability gap.

To promote revitalization and discourage speculation and the displacement of low-income tenants, many localities have developed incentives to keep rents affordable following rehabilitation.

Although these efforts can produce the desired result of maintaining affordable rents, they also deprive localities of much needed revenue.

In line with its responsibility for providing affordable housing, the federal government should support these efforts with a federal match. For cities losing funds at the local level by instituting incentives to keep rents affordable, the federal government would provide a match through the National Housing Trust Fund.

IV. NATIONAL COMMUNITY-BASED HOUSING PARTNERSHIP PROGRAM

THE PROBLEM: Over the last several years there have been many success stories of city governments, foundations, and community organizations working together to build affordable housing. Unfortunately, the resources have not been available to turn there local success stories into a major new nationwide supply program for affordable housing.

THE PROPOSAL: Creation of a National Community-Based Housing Partnership Program

A new National Community-Based Housing Partnership Program would restore the federal government's role in housing, while promoting self-help efforts from local and state government and community organizations. It would provide matching grants to local governments and non-profit housing groups to build and rehabilitate affordable housing. This approach offers many advantages, including the following:

- it emphasizes self-help and local initiative.
- it is cost-effective because it relies on non-profit groups to build and manage the housing.
- it restores the federal government's role in housing, but it also gives local and state governments a responsibility, by requiring matching funds.
- it is tailored to local needs and local housing conditions.

- it is flexible, by making it possible to create for-sale, rental, or cooperative housing.
- it provides long-term affordable housing, thus avoiding the problem we are now facing with "expiring use restrictions" on privately-owned federally subsidized housing.

The National Community-Based Housing Partnership approach is in the best of American tradition -- helping communities that help themselves. It recognizes that not all communities have equal resources, and thus need different levels of federal assistance, but that each community understands best how to meet the housing needs of its residents.

We recommend that the program be funded initially at $500 million annually, or at a funding level that would produce 12,000 to 25,000 housing units annually.

GLOSSARY OF HUD PROGRAMS TO BE PRESERVED

PROGRAM	DESCRIPTION
CDBG (Community Development Block Grants)	Annual grants on a formula basis to entitle communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services.
HoDAGs (Housing Development Action Grants)	Funds awarded to local governments, and, in turn, to developers to finance the substantial rehabilitation or new construction of private rental housing. All projects must reserve at least 20 percent of the units for families with incomes at or below 80 percent of the median income of the area and keep the assisted units available for occupancy by lower income tenants for 20 years.
RENTAL REHABILITATION	Grants to cities and states to encourage rental housing rehabilitation, for low- and moderate-income families by matching capital funds with Section 8 housing vouchers or certificates.
SECTION 8	An income-transfer program to aid low- and moderate-income families in obtaining decent, safe and sanitary housing in the private market. HUD makes up the difference between what a low-income household (80 percent of area's median income) and very low-income household (50 percent of area's median income) can afford and the fair market rent for an adequate housing unit.
SECTION 202	A new construction program which provides direct loans to non-profit sponsors to finance rental or cooperative housing for elderly or handicapped persons.

SECTION 221(d)(3)	Federal mortgage-insurance program to insure private-lending institutions to help finance the construction or substantial rehabilitation of multi-family (five or more units) rental or cooperative housing for moderate-income or displaced families.
SECTION 312 LOAN	Direct federal loans to finance the rehabilitation of single-family and multi-family, mixed use, and nonresidential properties to prevent unnecessary demolition of basically sound structures.
UDAG (Urban Development Action Grants)	Grants awarded to assist distressed cities and urban counties to finance development projects having substantial private funding, but in need of additional financing to make the project feasible.
URBAN HOMESTEAD PROGRAM	A national program to revitalize declining neighborhoods and reduce the inventory of federally-owned properties by transferring vacant and unrepaired single-family properties to new homeowners for rehabilitation. Suitable properties owned by HUD, the Veterans Administration (VA) and Farmers Home Administration (FmHA) may be used in this program.

VI. IMPROVING EXISTING PROGRAMS

Calls for new low-income housing strategies such as the National Housing Trust Fund and the National Community-Based Housing Partnership in no way diminishes the need to preserve and improve existing urban programs. Foremost among them is the Community Development Block Grant (CDBG) Program. The CDBG Program has proven its mettle year after year, but continues to face devastating budget cuts. Between 1981 and 1987, CDBG was cut by 34 percent in real terms. Since September 1986, the entire program has existed solely on the basis of a continuing resolution appropriation.

It is imperative that the funding level of CDBG be restored to the full funding levels of the early 1980s when nationwide funding reached $4 billion. Thus, CDBG should be funded at a level of $5.5 billion annually to account for inflation and the devaluation of the dollar.

The CDBG program concept also should be reexamined to evaluate whether the project-by-project approach should be converted to a more long-term and comprehensive redevelopment strategy. Current policy dictates against coordinated public-private investment strategies. Public agencies, working with private developers and the financial services industry, can plan only one year ahead.

Since its inception the Urban Development Action Grant (UDAG) Program has:

- financed 2,678 development projects in 1,122 cities, creating 528,700 new permanent jobs, with more than 50 percent for low-and moderate-income workers;

- leveraged almost six dollars of private investment for every one dollar of federal UDAG investment.

Despite its performance, the UDAG program has been slated for elimination year after year by federal budget cutters. The UDAG program should be reauthorized without delay at the full funding level of $675 million, and the UDAG selection criteria should be changed so that 35 percent of the funds are awarded based on project merit.

The Rental Rehabilitation Program, as currently structured, does not solve our housing problems. Low-income Americans are faced with a supply and affordability problem. Shopping for housing does not work if there are no choices. Vouchers are not increasing the supply or quality of housing. They do not help developers get financing, and they don't guarantee project success.

Recommended Revisions:

1. Permit the permanent attachment of Rental Rehabilitation certificates and vouchers to low- and moderate-income projects. Attaching vouchers to projects would enhance the ability of the project to meet the 15 year compliance period for projects using the Low-Income Tax Credits.

2. Revise the Rental Rehabilitation program to permit its operation similar to the Moderate Rehabilitation Program, allowing owners to use existing equity to qualify for rental rehab assistance.

Other programs which should be adequately funded at the Section 312 Rehabilitation loans and Section 8 Moderate Rehabilitation.

VII. PRESERVING EXPIRING SECTION 8, SECTION 221 AND SECTION 236 CONTRACTS AND MORTGAGES

Between now and the year 2000, most of the 1.9 million publicly assisted units will be "at risk" as subsidies and/or use restrictions expire. If mortgages are allowed to be prepaid, and projects are sold or uses change, displacement and loss will threaten between 200,000 and 900,000 low-income units by 1995 alone. The federal government must take immediate steps to head off this loss. Owners must be encouraged to forego mortgage prepayments with incentives to rehabilitate and refinance, or maintain mortgages through maturity.

To carry forth the Conference's primary policy of preserving existing low-income housing stock, the following incentives are recommended:

1. Congressional action mandating HUD to permit current or future owners to refinance mortgages to generate additional resources for rehabilitation if the housing will be maintained pursuant to the low- and moderate-income requirements, past the prepayment allowance date.

2. Revision of the Tax Reform Act of 1986 to permit state and local housing finance agencies to issue tax-exempt

bonds outside the state or home-rule volume gap, for all "preserved" project financing.

3. Revision of the Tax Reform Act of 1986 to allow tax credits as needed to preserve all existing subsidized housing.

4. Permit the permanent attachment of Rental Rehabilitation certificates or vouchers to low- and moderate-income projects to enhance the ability of the project to continue to meet the 15-year compliance period for those projects qualifying for low-income tax credits.

5. Revision of the Rental Rehabilitation program to permit its operation similar to the Moderate Rehabilitation Program. Owners should be permitted to use existing equity to qualify for rental rehab assistance.

VIII. EXPANDING LOW-COST HOMEOWNERSHIP OPPORTUNITIES

One of the most well-worn cliches in the housing field is that "owning a home is part of the American dream." Yet, like other cliches, the kernel of truth doesn't disappear with use. No National Housing Policy would be complete without attention to this dream.

The federal government must redouble its commitment to expand homeownership opportunities, particularly for lower income persons. An expanded federal role doesn't necessarily entail increased capital expenditures. In the long run, continuing the existing federal housing insurance and guarantee programs, for example, will free up mortgage money from private lenders.

To meet this commitment to expanding homeownership opportunities, the Conference of Mayors recommends these actions:

* Congress should modify provisions in the Tax Reform Act of 1986 to help local and state governments use tax-exempt bond financing to finance below market rate mortgages. Specifically, Congress should define as "governmental," tax-exempt bonds issued to finance below market rate mortgages in disinvested low- and moderate-income areas. These bonds should be exempt from the unified cap or the alternative minimum tax.

* Congress should preserve existing federal housing insurance and guarantee programs such as FHA. Furthermore, FHA should not be privatized, nor its operations restricted by volume limits, additional user fees, or income targeting.

- Congress should preserve the secondary mortgage market programs of FNMA, GNMA and FHLMC and should not encumber these programs by such limitations as overall credit authority caps and excessive user fees.

The
Alternatives Center
2375 Shattuck Ave., Berkeley, CA 94704 (415) 644-8336

October 3, 1987

Senator Alan Cranston
Senate Building
Washington, D.C.

Dear Senator Cranston:

This is in response to your request for input from housing professionals regarding new national housing policies to produce housing affordable to low and moderate income citizens. You are well aware of the problems of old programs. We all know that policies are desperately needed that will address the need for decent, affordable housing without imposing an intolerable drain on public funds and using the least intrusive and costly bureaucratic arrangements possible. While the program I suggest below will not answer all housing problems, its implementation would go a long way in meeting these goals. I believe that such a program is fiscally and operationally feasible, even under tight budget conditions.

Recoverable interest acquisition and rehabilitation loans to non- profit developers or Cooperatives.

Financing: In such a program HUD, perhaps in cooperation with state and local government agencies, would supplement commercial mortage loans for multi-unit properties with 30 year loans in amounts and at interest rates so as to make the housing affordable to the target population. These properties would be owned and operated largely by non-equity sharing cooperatives (see below) or other non-profits. At the end of the 30 year period when both the commercial and government mortages have ben paid off, the owners would owe the government the difference between the the interest rate on the government's mortage and the commercial mortage, compounded over the preceding 30 year repayment period. The owners would be required to take aout a commercial mortage to repay this note. Since the government's cost of its money is lower than the commercial loan rate, the repayment of the difference in rate should largely compensate for the decreased value of money over time. As you know, all other low-income housing subsidy programs require continuous massive funding inputs. In the proposed scenario, a large portion of housing assistance becomes self-funding instead of requiring continuous massive capitalization and subsidies that never meet more than a small portion of needs. Though available for new building, I recommend that such a program give priority to the acquisition of existing apartment houses for the next five to ten years, since this would make it possible to both improve deteriorating housing stock and cost much less per unit than new housing construction.

To briefly illustrate: A cooperative or other non-profit developer has site control of a property or plans to build a 30 unit apartment house. The cost of the development would amount to $75,000 per unit. Assume that the target population's household income averages $22,000 a year, with a maximum affordable monthly housing cost of $600. The feasibility study indicates that occupants' payments can cover fourty percent of a 95% mortage at prevailing commercial interest rates, provided the rest of the mortage could be obtained at three percent interest. Following local HUD approval, a three percent interest loan of $1,959,000 for the property is approved, and begins at the time escrow is closed along with an 11% interest commercial loan for $1,425,000 (40 percent of the 95% mortage). Reapayment of both loans begins at the time escrow closes, and at the end of 30 years the owners are obligated to take out a new commercial loan to repay the government the compounded difference between the 3 percent and 11 percent loans. Simple calculations show (I'd be glad to send you the analysis), that the government's cost of such a program applied to an example like this one would be a fraction of the cost of any other subsidy program for tenants or investors tried since the second world war.

Ownership and operation: This kind of program can be effective only if owned and operated by non-profit organizations. Many Community Development Organizations throughout the country have demonstrated their technical competence in developing and managing housing over the last decade, and many of them could take on expanded responsibilities. I also urge particular attention to the excellent record of performance by housing cooperatives in this country and Europe over the last 100 years, exemplified by the sustained success of the more than 500,000 "213" cooperatives developed between the mid 1960s and 70s under HUD's loan guarantee program. The failure rate of these cooperatives was (and is) below that for single occupancy homes financed in the open market. These and many other cooperatives are organized so that the paid-off mortage principal remains with the cooperative. As members leave they gain only a small inflation adjustment on their original downpayment (ranging from three to ten percent). Provisions must be made to assure that if these properties are ever put on the market all net profit would have to be paid to the government or to another non-profit housing group commited to provide comparable housing. In this way, housing speculation is improbable, and permanent affordability is assured.

These arragements all minimize the need for elaborate bureaucracies. Government agencies would exercise the same monitoring as other lenders. However, it would be wise to support the most effective management support framework possible. These appear to be "Mutual Housing Associations" whose success has been demonstrated in Sweden and elsewhere. Through these, coperatives in a locality or region join together in one of several forms of Associations that provide management expertise and continuous monitoring of performance, including the authority to step in and temporarily take over in case of trouble. Though these associations should be able to support themselves through fees, some development assistance may be necessary for the first three to five years of their operation.

These suggestions are based on over 20 years of housing experience as a developer of low income housing, especially the conversion of multi-unit properties into limited equity housing cooperatives. There is ample empirical evidence that such housing is not only more cost-effective than any other type of multi-unit housing, but provides a consistently higher quality physical and social environment for residents who take pride and responsibility for their homes.

If these suggestions are of interest to you or to your staff, I would be glad to expand them in whatever technical or other detail may interest you. Thank you for your continued leadership for the common good.

Sincerely yours,
Kaswan
Jaques Kaswan, Ph.D.

B'NAI B'RITH INTERNATIONAL
[illegible] Ave., N.W.
Washington, D.C. [illegible]
[illegible]
[illegible]

SENIOR CITIZENS
HOUSING COMMITTEE

October 7, 1987

Senator Alan Cranston
Chairman, Subcommittee on Housing and
  Urban Affairs
Senate Committee on Banking, Housing,
  and Urban Affairs
535 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Re: Requests for Housing Legislation Comments

Dear Mr. Chairman:

On behalf of the Senior Citizens Housing Committee of B'nai B'rith International, I would like to offer our comments with respect to your consideration of developing a federal housing policy for the 1990's and beyond.

The primary objective in the area of housing and related matters in the post-Reagan years must be to fulfill the pledge of the Housing Act of 1949 of a decent home for every American. Decent housing for every American is a reasonable and humane goal for the richest nation on the earth. It has been our goal for almost 40 years and it is shameful that the goal has not been achieved. It is time that we take the goal and the pledge seriously. Underlying our housing policy for the immediate future must be a commitment to provide decent housing for all and to make it a reality in our lifetimes.

B'nai B'rith International, through its Senior Citizens Housing Committee, has for the past 15 years been involved in a cooperative partnership with the federal government in building subsidized housing for senior citizens through the various programs of the Department of Housing and Urban Development, under Section 202/236 and now 202/8. During this time, we have opened 21 senior citizens apartment buildings nationwide. We have two additional projects under construction and have recently been notified that two more applications have been selected for funding this year (1987).

By 1989, we will have constructed and be operating 25 apartment buildings, nationwide, with over 3,000 apartments. While most of these units house only one individual, many are for couples. We will be serving approximately 4,000 older citizens, without regard to race, religion, national origin, or creed. This is a great achievement, but in terms of answering the needs of the senior citizens, it falls terribly short of meeting the demand.

The "greying of America" is well documented. The population 65 and over grew by 20.6 percent between 1960 and 1970, and by 28 percent between 1970 and 1980. Today, according to government statistics, 27 million Americans are over 65 years of age. The implications of these projections for housing in this country, and for the federal housing policy in particular, are profound.

The demand for Section 202 housing units far exceeds the supply. This is documented by the national survey of Section 202 housing projects conducted in 1984 by the U.S. Senate Special Committee on Aging, and confirmed by our experience at B'nai B'rith International. A survey of the B'nai B'rith facilities reveals that each of our 21 projects is filled to capacity. The two projects still in the development stage are already accumulating sizable waiting lists, even though construction is far from complete and no public announcement for applications has been made. Our Washington office receives letters and calls daily, from individuals all across the country, requesting information about our programs, and asking where they can find available housing.

Yet these figures represent only a fraction of the actual number of persons who need the housing that these projects offer. Waiting lists only represent those persons who chose to apply, and do not include those who were discouraged by the prospect of a long wait and chose not to bother. Many times these are the people who may be most in need of affordable housing. Sometimes a waiting list becomes "frozen" and no new names are added. For example, at our two housing facilities in Allentown, PA, the waiting list has been "frozen" for four years. They are just now beginning to accept new applications for apartments. Unfortunately, we can document similar situations in many other cities across the country.

With this in mind, we would like to offer the following specific points to be included in any future housing legislation that may be offered:

1. As one of HUD's most successful programs, the Section 202 direct loan program for the elderly and handicapped should be authorized to fund an additional minimum of 30,000 housing units annually, with appropriations adjusted for inflation. Ten years ago, this program was being funded at levels of 30,000 units. Today, with the numbers of needy elderly growing larger each day, we must resist the trend to barely keep the program alive and viable, and take steps to insure that our future needs are met.

2. Provide that eligibility for occupancy in low income housing, including the Section 202 direct loan program, be extended to families and single persons with incomes of up to 80 percent of the median income for the area.

The current limitation requiring that eligibility for admission to occupancy be limited to those with incomes of 50 percent of the median income for the area is far too restrictive, shuts out low income families and persons who cannot obtain decent housing without the expenditure of excessive percentages of their income--often in excess of 50 percent, creates over-concentrations of the very poor, and tends to result in the use of maximum subsidies per unit subsidized, rather than maximizing the number receiving assistance. Such an amendment would return eligibility to the income groups originally made eligible in the 1974 Housing Act.

Our experience at B'nai B'rith indicates that well over 85 percent of the residents in our buildings are in the very low income group, and would continue to be so, even if the limits were to be raised. However, we are currently faced with the task of rejecting many needy and deserving individuals whose incomes are only slightly above the very low income range.

In New York City, 50 percent of the area median incomes is $10,350. Where does a widow with an annual income of $11,000 apply to live?

3. Occupants of Section 202 and other housing projects where the Section 8 Housing Assistance Payments are used as subsidies are required to pay 30 percent of income for rent. Administratively, HUD has determined that if the 30 percent of the family's or person's income is more than the fair market rent for the unit to be occupied, that family or person is considered ineligible for occupancy. This penalizes an otherwise eligible family or person unfairly, simply because a given project has a relatively low rent structure.

   Because conscientious owners and management have controlled costs and have not routinely sought rental increases, the income-eligible applicant is penalized by not being admitted to the building. However, the same individual is able to gain admission to another Section 202 building with a higher rent structure, with an accompanying government subsidy which would not have been required in the original case.

   Clearly, this "catch 22" situation is a disincentive to keep costs down. By maintaining a low market rent, management must limit prospective applicants to only those persons with the smallest annual income. This again creates an overconcentration of "poor" and tends to "stigmatize" a particular facility. From a deficit reduction view, it also maximizes the use of government subsidy dollars rather than provide quality housing for as many income eligible persons as possible.

Legislation should be amended to permit such families or persons to be assured admission if they are otherwise eligible under HUD guidelines.

4. Various efforts are being made to permit the prepayment of mortgages covering low income projects such as Section 202 projects for the elderly and handicapped where the market demand for housing suggests that higher rents and profits could be obtained should the mortgages be paid off immediately. This would result in the loss of already limited housing resources for the low income elderly or handicapped if such prepayments were permitted.

   Accordingly, legislation should include a provision that would allow a low-income project mortgage to be prepaid prior to the maturity date of the mortgage, without penalty, but with a provision that HUD's requirement assuring that the project would continue to serve the original purpose for which it was approved would still be in effect.

5. In the 1990's, the 20-year terms of Section 8 Housing Assistance Payments Contracts will start expiring. In the absence of extensions of the present contracts through legislative amendments, there is danger that a considerable reduction in the supply of decent housing for the low-and-moderate-income elderly will take place while the demand and need expand. Unless subsidies continue to be available, many of the low-income residents could not afford to pay the increased rents they would have to pay. The result probably would be mass evictions without other suitable housing available. Thus, either the Section 8 program should be extended or a new program(s) devised to replace it.

6. In its efforts to seek economies in the development cost of subsidized housing, the Administration has imposed overly severe cost containment requirements, although such economies are desirable when warranted. Nevertheless, the Congress should mandate a study of the present cost containment measures used in the subsidized programs and require that appropriate changes be made as soon as feasible.

7. Having demonstrated its success in meeting the needs of the frail elderly and the handicapped, and with continuing unmet needs among many, many thousands, the Congregate Housing Services Program (CHSP) should be revitalized and eventually be authorized to serve an additional minimum of 20,000 frail elderly and handicapped families and persons annually, to be allocated between Section 202 and public housing projects as currently administered.

8. There is a growing support for the funding and development of assisted or care-type housing. These facilities would be for elderly people who are having difficulty in living fully independently. They may need help with housekeeping, cooking, shopping, dressing, bathing, and other activities of daily living. These are persons whose needs are not met in fully independent housing, but who do not require daily, or regular nursing or medical care, although a nurse on duty might be quite advantageous, especially in the event of emergencies.

   The need for assisted housing should be considered on its own merit. It should not be used as justification for a reduction of support for independent housing as developed under Section 202. It is urged that Congress provide funds for a substantial number of such projects, with HUD responsible for its administration, the projects financed through direct loans, with subsidized occupancy and personal care and other services available to is occupants.

9. Federal assistance for the development of housing for the elderly has been available since the Housing Act of 1956, when it was authorized under the Public Housing program. Since 1956, housing programs for the elderly have resulted in billions of dollars invested in housing for older people and about 1.5 million units of subsidized housing now are occupied by senior citizens. At these levels, the Department of Housing and Urban Development should have an Assistant Secretary of Housing for Senior Citizens to coordinate HUD's programs for the elderly and to be the Secretary's consultant and spokesperson on all matters relating to the elderly.

10. Most of the housing designed for the elderly in the United States has been developed since the enactment of the Housing Act of 1959. With the passage of more than a quarter of a century, housing for the next generations of older people should be designed to meet their needs. The next generations of the elderly are likely to be born in the United States, better off financially, better educated, more involved politically, healthier and more independent in every respect. The new elderly may be so different that we must begin now to study what they will need and want, rather than assuming that our current ideas will serve them equally well in the next few decades.

Since the inception of the federally subsidized housing programs, the federal government has depended upon the non-profit community to share in the task of providing the sense of commitment and challenge in making quality housing available to low-income senior citizens. For the non-profit organizations in general, and B'nai B'rith in particular, this partnership has been an exciting and eye-opening experience of government and private groups working hand-in-hand, to the benefit of thousands of American citizens. We believe that many tax dollars have been saved through this housing program, and that people who needed the help most have been helped.

Without the tireless support of your Committee, the non-profit community could not continue in this great endeavor. The remarkable advances that this country has made in accomplishing our housing goals would not have come about if it were not for the significant participation of the federal government.

We consider it to be a privilege and a sacred task to be involved in this program of caring for senior citizens, and we hope to continue to build new projects in cooperation with HUD. Providing affordable housing for the elderly requires a long-term commitment of time and resources. We have that commitment. It is because of this commitment that we now express our views.

Mr. Chairman, we appreciate the opportunity to share these thoughts with you. We look forward to being able to assist you in developing and strengthening Federal housing programs for the elderly and for the opportunity to continue to provide quality housing for our needy seniors.

Sincerely,

Nathan I. Nagler

Nathan I. Nagler
Chairman

NIN:ew
0249S

CALIFORNIA ASSOCIATION OF REALTORS®

EXECUTIVE OFFICES • 525 SOUTH VIRGIL AVENUE • LOS ANGELES, CALIFORNIA 90020 • (213) 739-8200

JACK PAULSON
President

(This material has not been approved by the Federal Housing Issues Committee, the Executive Committee or the Board of Directors.)

October 8, 1987

Senator Alan Cranston
Senate Housing Subcommittee
Dirksen Senate Office Building Sd-535
Washington, D.C. 20515

Dear Senator Cranston:

The California Association of REALTORS® is pleased to have the opportunity to submit the following paper outlining "building blocks" for new national housing legislation. We have attempted to outline new approaches but also to suggest why some current programs deserve to be not only maintained, but strengthened. Throughout, we have highlighted these issues from the unique California perspective. We apologize for the delay in getting this to you, as last Thursday's earthquake caused a bit of a disruption in our work schedule.

We are delighted to be part of this process and would welcome the chance to provide further specific recommendations in the future. Please do not hesitate to contact us if we can be of any further assistance.

Best regards,

Jack Paulson
President
California Association of REALTORS®

Joel Singer

Joel Singer
Vice President
Planning, Research
and Economics

THE NEED FOR COMPREHENSIVE HOUSING LEGISLATION

I. Introduction

The California Association of REALTORS® has prepared this paper as a conceptual background to the process of reformulating our national housing policy. In preparing these materials, our Association intends to provide some general directions for further exploration. Thus, these recommendations do not necessarily entail official REALTOR® policy and are submitted in conjunction with a forthcoming broader analysis being prepared by the National Association of REALTORS®. In particular, C.A.R. suggests that any emergent national housing policy must entail three broad areas of emphasis:

(1) the preservation and reformulation of the federal role in housing finance;
(2) the development of new federal funding programs, featuring a strong emphasis on local and state implementation in those housing areas where the private sector cannot fully address housing needs;
(3) a series of new programs, as well as adaptations and enhancements of existing programs designed to meet current and emerging problems in the housing arena.

Although it is C.A.R.'s view that most current housing issues are best addressed through the private sector, we also recognize that a renewed federal commitment is vital in several areas. We therefore are most appreciative of the opportunity to comment on this key social issue and fully support this important project.

II. Housing Affordability

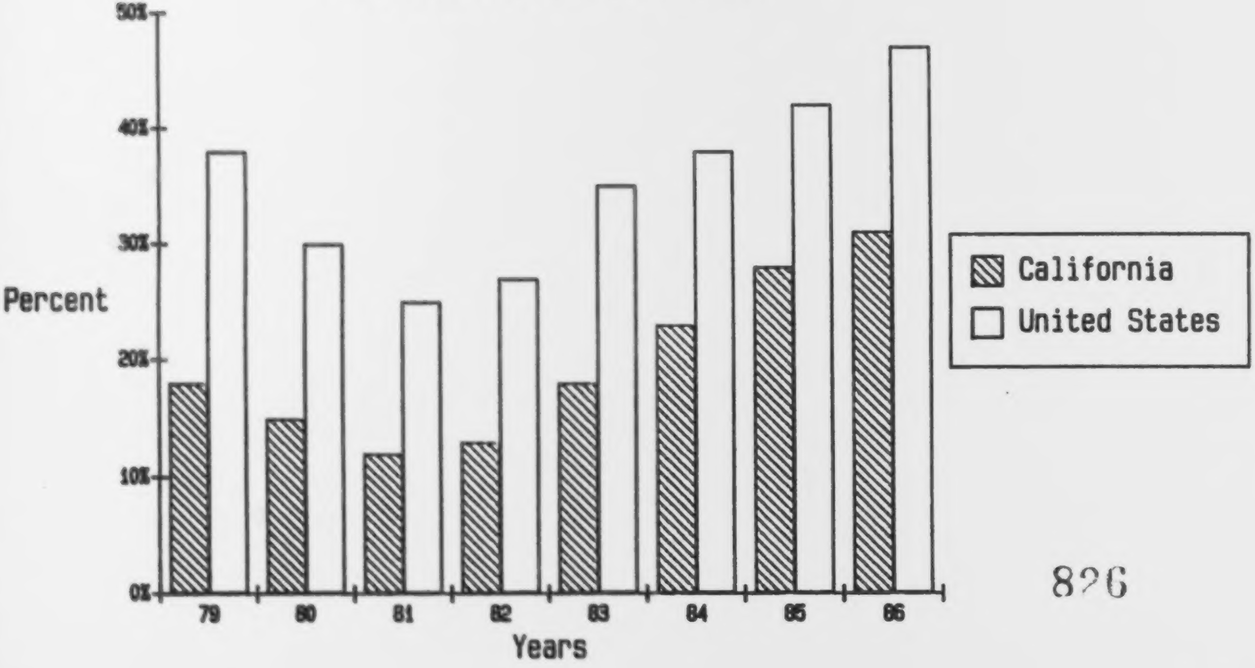
Housing affordability has been a major constraint on the state's housing market since the mid-1970s. Although recent growth in incomes and generally lower interest rates have improved the affordability picture since the 1981-82 recession, buyers continue to face serious obstacles in achieving homeownership. First-time homebuyers have a particularly difficult time because of the often substantial downpayments required to buy a home.

Declining Homeownership Rates - The problems of housing affordability are reflected in a decline in homeownership rates since the beginning of the decade. Nationwide the rate has dropped from 65.6 percent of households in 1980 to 63.8 percent in 1986. In California, a state which has relatively high housing costs, the drop in homeownership has been even more dramatic, falling from 58.8 percent in 1980 to 53.2 percent in 1986. Within age groups, the decline in homeownership has been most pronounced among those 25 to 34 years old, typically the prime homebuying age.

Affordability Index - While there are many methods of measuring housing affordability, every analysis requires a look at three key factors: housing prices, household income and mortgage interest rates. C.A.R.'s housing

EXHIBIT 1

HOUSING AFFORDABILITY INDEX
California vs United States



affordability index measures the percent of households who could purchase the median priced home with a 30-year mortgage at current mortgage interest rates and a loan-to-value ratio of 80 percent. It is also assumed that principal, interest, taxes and insurance do not exceed 30 percent of total household income.

As shown in Exhibit 1, affordability in California as well as in the nation as a whole hit a low point in 1981. During the recession, only one-quarter of the households nationwide could afford the median priced home, while in California, affordability reached a low of 13 percent. A combination of declining mortgage interest rates, modest growth in real incomes and relatively moderate increases in home prices since the 1981-82 downturn has helped improve housing affordability. Currently, 48 percent of U.S. households could afford to purchase the median-priced home of $85,400, while 31 percent of California households could afford to purchase the $143,900 median priced home. However, affordability has worsened during 1987 as interest rates have climbed and home prices have been pushed higher by tight inventories and high demand. In California, the proportion of households who could afford to buy dropped from a high of 37 percent in February to 31 percent by August, as mortgages rates rose from 9 percent to 11 percent over the same period. As a result, 600,000 fewer California households could have qualified to purchase the state's median priced home.

Rapidly Rising Home Prices - A large part of the housing affordability problem has been the rapid rise in home prices in recent years. For the U.S. as a whole, the median priced existing single-family home in 1970 was $23,000. By 1986, the median priced home had increased 249 percent to $80,300. In California, home prices appreciated even faster with the state's median increasing from $24,300 in 1970 to $131,500 in 1986, a gain of 441 percent. This price behavior reflected a combination of high demand resulting from strong population growth, and tight housing supplies as building activity has been constrained by high land costs and anti-growth measures in many areas.

Slower Income Growth - Meanwhile, the growth in household incomes has not kept pace with the rapid rise in home prices. According to the U.S. Bureau of the Census, median family income in the U.S. over the same 1970 to 1986 period increased only 183 percent from $9,867 to $27,893, compared to the 249 percent hike in U.S. home prices. Similarly, in California, median family incomes rose 185 percent from $10,828 in 1970 to $30,837 in 1986, much slower than the 441 percent jump in the state's housing prices.

Volatile Mortgage Interest Rates - The crucial role played by financing in the purchase of a home makes interest rates a major factor impacting housing affordability. The volatility of mortgage interest rates also adds to the uncertainty and instability of the housing affordability picture. In the early 1980s, interest rates soared as the Federal Reserve shifted its monetary policy from pegging interest rates to controlling the money supply. As the Fed clamped on the monetary brakes in order to fight inflation, mortgage interest rates reached 17 percent and housing suffered its worst downturn since World War II.

While the easing of interest rates in 1985 and 1986 helped to improve housing affordability, this year rates climbed in the Spring and again in the Fall, and are now close to 11 percent for a fixed-rate loan. Any rise in interest rates is immediately reflected in higher costs of homeownership and adversely affects housing affordability as illustrated in the previous example.

First-Time Homebuyers - First-time homebuyers are hardest hit by rising home prices and fluctuating interest rates. This is due to their relatively low incomes and the difficulty they face making the required downpayment. Homeowners who sell their home in order to buy another have, for the most part, enjoyed appreciation in the value of their home, the gain on which they can use as a downpayment on another home. First-time homebuyers are not so fortunate and tend to face both downpayment and income constraints.

In C.A.R.'s Annual Housing Finance Survey (1986), first-time homebuyers in California purchased significantly less expensive homes than repeat buyers--$112,950 compared to $149,900. First-time homebuyers also had lower incomes, $39,996 per annum versus $50,000 for repeat buyers. In addition to purchasing less expensive homes, first-time homebuyers make significantly smaller downpayments than repeat buyers. In California, first-time buyers' downpayments averaged $14,550 in 1986 compared to $35,000 for repeat buyers. Also median loan-to-value ratios among first-time buyers in the state are higher at 88.4 percent compared to 78.2 percent for repeat buyers. This places them in a higher risk category in terms of default and foreclosure, thereby making affordable financing more difficult to come by.

Housing Affordability for Renters - Many renters also face problems finding affordable housing. The rental market is being adversely affected by the Tax Reform Act of 1986 which substantially reduced incentives to invest in rental housing. In the short-run, these changes in the tax law will cause a decline in the construction of rental housing that will eventually lead to higher rents. C.A.R. has estimated that multi-family housing construction will be 20 percent lower in California in 1987 compared to 1986. Furthermore, as the adjustment in rental housing supply is made over the next several years, real rents will have to rise by 12 percent beyond inflation in order for investors to achieve the same rates of return as they did under prior tax law. Rent increases are likely to eat up much, if not all, of the benefits that renters would have enjoyed as a result of lower marginal tax rates.

Additionally, tax reform has significantly reduced the volume of housing bonds which can be issued in states such as California where housing demand is strong. The new tax rules brought mortgage revenue bonds and multi-family IDBs under a more restrictive volume limit which includes other private activity bonds. As a result, it has been estimated that by 1988, private activity bonds issued in California could face a potential two-thirds reduction from 1984 volumes. In 1984, housing bonds totalled $3.2 billion, representing 81.2 percent of all California bonds issued. Of this, MRBs and multi-family IDBs accounted for 69 percent and 31 percent, respectively. Clearly, a significant source of lower-rate home financing will be sharply cut back, with negative effects on new housing construction and low- and moderate-income renters and buyers.

The problems of housing affordability are particularly acute for low-income renters. According to HUD, a substantial number of low-income renters nationwide pay more than 35 percent of their income for rent. While the Tax Reform Act of 1986 included a low-income housing tax credit for builders, investors and rehabilitators of residential rental units geared toward low-income renters, these projects are faced with severe cutbacks in the federal assistance on which they have depended for many years. For example, housing's share of the federal budget, as measured by HUD's budget authority, accounted for 7.4 percent of the total federal budget in fiscal 1978 and is proposed to be less than 1 percent in fiscal 1988.

The low-income housing stock is also being adversely impacted by the conversion of currently subsidized low-income housing units to market rate rentals. Over the next 20 years, owners of many subsidized low-income housing units (under Sections 236 and 221(d)(3), Section 515 and Section 8) will be able to prepay their loans or not renew expiring subsidy contracts, thus releasing their projects from all rent and other regulatory restrictions.

In California, an estimated 1,400 projects totaling approximately 100,000 assisted units will become eligible to convert to market rates in the next 20 years. High housing costs and rental demand in many areas of the state will provide strong incentives to assisted project owners to convert, and many are expected to do so. HUD conducted a national study that showed approximately 42 percent of eligible Section 236 and 221(d)(3) projects are likely to prepay. For California this estimate is probably conservative in light of the relative strengths of the state's rental housing market. While housing vouchers and certificates will be issued for any displaced tenants of converted units, the problem of the loss of low-income housing units from the total stock has not been addressed.

III. The Role of the Federal Government in Housing Finance

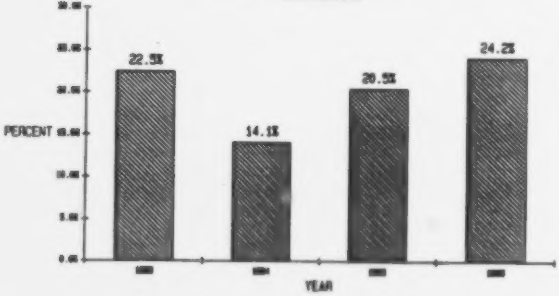
Since the 1930s, when numerous government agencies and programs designed to promote homeownership were established, the federal government has been the key player and a driving force in promoting housing opportunities for American families. The dramatic increase in the homeownership rate from 42 percent in 1940 to nearly 66 percent in 1980 is a tribute to the success of these efforts. Conversely, the reversal of this trend in the 1980s is inextricably tied to the deterioration in the federal commitment to housing. A rededication of effort to improve and enhance the federal housing finance programs of the FHA, VA and the federally-sponsored secondary market agencies is required. Without it, homeownership rates will continue to fall and first-time buyers will find it increasingly difficult to buy a home, thereby reversing more than 50 years of progress in helping families achieve the dream of homeownership.

Importance of FHA and VA to the Primary Mortgage Market

Since 1934, the Federal Housing Administration and the Veterans Administration have made homeownership possible for nearly 20 million first-time and moderate income households. Although the popularity and importance of the home loan programs in the marketplace waned somewhat in the late 1970s and early 1980s, application volume has reached record levels during the past two years. Even in California, where high home prices limit the use of FHA and VA financing in most major markets, these programs captured a 24 market share in 1986 (see Exhibit 2). The surge in FHA and VA lending can be attributed to the substantial tightening of underwriting criteria employed by FNMA, FHLMC and the private mortgage insurance industry over the past year. Despite the sharp decline in interest rates over the past few years, many prospective homebuyers have remained "priced" out of the market by these new guidelines, as well as by the considerable resurgence in home price inflation. As a result, low-downpayment FHA and VA loans represent the only source of mortgage credit for thousands of first-time and moderate income households.

EXHIBIT 2

FHA/VA SHARE OF NEWLY-ORIGINATED FIRST MORTGAGES



Unfortunately, just as FHA and VA have reasserted their importance in the mortgage market, they have been faced with proposals to restrict their operations. During the past few years the mortgage insurance and loan guaranty programs of FHA and VA have been the target of numerous efforts from the Administration and Congress designed to "limit private market overlap" and restrict program benefits to "only those households that truly need assistance." Perhaps the most damaging aspect of this hostile agenda is the proposal to sell or "privatize" the FHA single-family insurance program, under the belief that the homebuying needs of the nation's families can be adequately met by the private market without federal government assistance.

The belief that FHA and VA serve substantially the same market as private mortgage insurers is simply not supported by statistics. In California, the median annual income of FHA borrowers in 1986 was $36,000, nearly $17,000 lower than for borrowers using conventional financing (see Exhibit 3). Veterans relying on VA financing earned nearly $13,000 less than their conventional market counterparts. More than 62 percent of FHA loans and 56 percent of VA loans went to California's first-time homebuyers in 1986, compared to only one-third for conventional loans. As the table below clearly illustrates, the FHA and VA programs serve precisely the market they were intended to serve: first-time and moderate-income homebuyers whose income and downpayment constraints make conventional financing impossible.

EXHIBIT 3

Newly-Originated Conventional vs. FHA/VA Mortgages: 1986

Characteristic	Conventional	FHA	VA
Median Interest Rate	10.25%	9.5%	9.5%
Median Loan Amount	$118,020	$78,000	$103,000
Median Sales Price	$149,997	$83,250	$107,000
Median Downpayment	$30,800	$5,000	$5,000
Median Loan-to-Value Ratio	79.9%	94.4%	96.6%
Proportion of First-Time Buyers	34.5%	62.3%	56.1%
Median Annual Household Income	$52,900	$36,000	$ 40,000

The key to the FHA and VA programs is that they do not compete with the private market for mortgage insurance, but rather complement it. These programs assist a homebuying population that generally would not be served by the private sector. This function has become particularly important in light of the recent problems experienced in the private mortgage insurance industry which have left FHA and VA as virtually the only remaining source of low-downpayment (i.e. less than 10 percent) mortgage financing. What makes these programs so valuable to the functioning of our housing market is precisely their government backing. The present resurgence of the FHA and VA programs in the face of strict underwriting criteria and higher insurance premiums in the conventional market illustrates what is perhaps FHA's most important role -- it stays in the market under any and all economic conditions.

Proposals for Enhancing the FHA and VA Programs

While the above discussion argues strongly for the preservation of the FHA and VA home mortgage programs, the continuing decline in homeownership rates and persistent affordability problems in high-cost areas such as California clearly illustrate the need for policies that go beyond the mere preservation of FHA and VA in their existing state. In fact, many of the proposals contained in this year's housing legislation and veteran's legislation represent an essential first step in revitalizing and enhancing the important role that these programs play in providing homeownership assistance to those who need it.

For example, bills currently under consideration would increase the FHA maximum loan amount and the VA loan guaranty ceiling in recognition of the substantial increases in housing prices in recent years. However, these increases, while helpful, will only partially compensate for the cumulative dramatic climb in home prices that has occurred since the mid-1970s. In addition, the legislative wrangling that accompanies each increase in these loan amount and guaranty caps means that future increases will, as in the past, substantially lag the price movements they are intended to reflect. Furthermore, the use of uniform, nationwide ceilings fails to capture the effects of large regional home price differentials. As a result, many areas of the country are almost entirely unable to use these programs.

Other problems with the FHA and VA programs have inhibited their ability to operate efficiently and prevented them from fully realizing their capability to assist first-time and moderate-income homebuyers. Within the context of developing a national housing policy, we believe that the following proposals for enhancing the vitally important FHA and VA home mortgage programs should be considered:

- To better reflect overall changes in the cost of housing, we suggest that the FHA maximum loan amount and the VA loan guaranty ceiling could be indexed to change in line with overall home prices, with adjustments made automatically each year. In addition, to capture regional price differentials, and to ensure that affordable financing is provided to both high- and low-cost housing markets, a regionalization of these loan maximums is clearly warranted.

- FHA and VA should also be encouraged to insure and guarantee new mortgage instruments that serve the needs of various segments of the home buying population. Indeed, legislation currently under consideration would increase the availability of FHA adjustable-rate mortgages, and would for the first time make these low initial payment ARMs available to veteran homebuyers. However, further efforts to pioneer and standardize new mortgage instruments is warranted. For example, extensive research and pilot programs on mortgages designed to serve the needs of first-time buyers (e.g. shared-appreciation mortgages) and the elderly (e.g. reverse annuity mortgages) should be undertaken. Just as it pioneered and standardized the long-term, fully-amortizing fixed-rate loan, we believe that FHA should once again play a leading role as a mortgage instrument innovator.

- Efforts should continue to develop methods designed to reduce downpayment and closing cost requirements on FHA mortgages, as these costs frequently pose the largest hurdle for many potential homebuyers. For example, the 3 percent downpayment requirement could be extended to the first $50,000 of the insured mortgage amount, up from $25,000 currently.

- The full and free assumability of FHA mortgages has recently been curtailed by administrative regulations issued by HUD, and VA loans are currently the subject of similar restrictions in pending legislation. National housing policy should recognize the importance of the assumability feature: it not only provides a safety net of affordable, low-rate financing during periods of high interest rates, but also it allows troubled homeowners to sell their homes quickly and efficiently and cure their delinquencies more easily.

- Because of more cumbersome loan processing procedures, many home sellers are reluctant to sell to buyers using government financing. Although substantial progress has been made in streamlining the underwriting of FHA and VA loans through the Direct Endorsement and automatic lender programs, further efforts should be made to standardize and reduce the loan documentation and processing requirements. For example, veterans should be allowed to negotiate interest rates and points on their VA loans, similar to the program change that was instituted by FHA in 1983.

- The operational efficiency of both FHA and VA has also been restricted in recent years due to inadequate funding and staffing levels. During the extremely heavy lending activity of 1986 and early 1987, FHA and VA staff workloads reached overwhelming levels. The resulting backlogs severely penalized buyers seeking to use government financing. Increased resources should also be dedicated to improving the disposition process for properties acquired by HUD and VA through foreclosure.

The Importance of the Federally Sponsored Agencies to the Secondary Mortgage Market

A consequent by-product of the financial institution deregulation which has occurred over the past several years has been an increased need for a viable and efficient secondary mortgage market to ensure that homebuyers can compete effectively for mortgage funds at a price that would not be prohibitive. To date, this need has been filled by the strong presence of the federally sponsored secondary market agencies. In addition to their traditional counter-cyclical role, these agencies have helped solve mortgage market inefficiencies caused by geographic mismatches between capital surplus and capital deficit regions, and by institutional mismatches (i.e. by providing mortgage investment vehicles attractive to a variety of capital market investors).

Unfortunately, like the FHA and VA programs, the federally sponsored secondary mortgage market agencies have also been the subject of proposals that would severely curtail their ability to provide an adequate flow of capital to the mortgage market at a reasonable cost and under all economic circumstances. The professed goal of this agenda is the eventual complete privatization of FNMA and FHLMC, and a substantially reduced role for GNMA.

As the first step to privatization, there have been repeated attempts during the past several years to impose user fees on the mortgage securities and debt issues of FNMA, FHLMC and GNMA. The cost of these user fees would necessarily be passed on to homebuyers in the form of higher interest rates in the primary market, and it has been estimated that the combined effect of these fees, according to some studies, would raise mortgage rates by one-half percent, cut housing starts by 50,000 units per year, and reduce home sales by 100,000 units per year. Clearly, full privatization would have even higher costs. Moreover, without their federal charters committing them to the goals of housing, FNMA and FHLMC would no longer be able to serve their crucial role as a counter-cyclical force in the market, and their presence as a source of market discipline and as innovators in mortgage finance would be lost.

Proposals for Enhancing the Federally Sponsored Secondary Market

Ultimately, the arguments surrounding the privatization of the federally sponsored agencies may be philosophical. However, within the context of developing a national housing policy, the preservation of a federally sponsored secondary mortgage market is of vital importance to maintaining an adequate flow of affordable mortgage financing to our nation's homebuyers. Once again, the housing legislation currently under consideration would go a long way toward preserving the viability of the federally sponsored secondary market as we know it today by prohibiting the imposition of user fees. However, we believe that other measures should be taken to enhance the vital role that these agencies play:

- As with FHA and VA, the effectiveness of FNMA and FHLMC in high cost markets is restricted by a uniform, nationwide maximum loan limit (currently $153,100). Although this figure is adjusted annually to reflect changes in home prices over the previous year, no adjustments are made for the large variations in regional home prices. Thus, we believe that provisions should be made for establishing regional maximum loan limits on the mortgage purchases of FNMA and FHLMC in order to ease the affordability problems experienced in high cost markets such as California.

- FNMA's and FHLMC's role in piloting innovative mortgage instruments should be encouraged and enhanced. The resources of the agencies should be used to research, develop and standardize the new instruments tailored to first-time buyers and the elderly. In addition to providing a secondary market for instruments such as the shared appreciation mortgage, growing equity loan and the reverse annuity mortgage, the agencies could lead the way in developing a financing vehicle for lease/option purchase arrangements that would help turn thousands of renters into homeowners.

- Because rental housing represents the first rung on the ladder of homeownership, efforts should be made to substantially broaden the commitment of FNMA, FHLMC and GNMA to multi-family housing. By lowering the cost of multi-family mortgage financing, the stock of affordable rental housing would be substantially improved.

- Agency involvement in the purchase of loans originated through state and local mortgage revenue bond and mortgage credit certificate programs should be greatly enhanced. By providing an efficient secondary market for such loans, lender participation in these programs would expand significantly, thereby improving the availability of these low-cost funds.

- Existing secondary market programs for the purchase of rehabilitation mortgages and home improvement loans should be expanded and enhanced. New purchase programs for rehabilitation loans on multifamily properties should be instituted.

Other Housing Finance Proposals

With the establishment of the Federal Home Loan Bank system in the early 1930s, the federal government created an industry dedicated to satisfying the nation's mortgage credit needs. Undoubtedly, the existence of a thrift industry devoted to housing finance played a crucial role in the transformation of the country from a nation of renters to a nation of homeowners. Although the economic and technological forces of 1970s and 1980s necessitated some loosening of the regulatory reins, the deregulation of the thrift industry and certain changes to the tax code have substantially eradicated the industry's mandate to serve the nation's housing needs. While some deregulation of asset powers for thrift institutions has been necessary, we believe that attempts to reformulate a national housing policy should include renewed incentives for all depository institutions, and thrifts in particular, to originate and invest in residential mortgage assets.

- The Qualified Thrift Lender test should be strengthened, and the benefits accruing to those institutions satisfying its requirements should be enhanced. For example, the tax benefits provided to thrifts that meet the QTL test for the IRS bad debt reserve provision could be restored to the higher levels that prevailed before the Tax Reform Act of 1986.
- Ongoing efforts to increase bank and thrift industry capital levels could provide for capital "bonuses" for institutions that maintain certain proportion of their assets in residential mortgage investments (loans and mortgage securities). Any move toward risk-based capital requirements for banks and thrifts should provide for the favorable treatment of residential mortgage assets, particularly home mortgages, as these have historically been some of the lowest risk loan assets available.
- Similarly, attempts to shore-up the federal deposit insurance funds should also provide for the favorable treatment of institutions that maintain a large proportion of their assets in residential mortgages and mortgage securities. If risk-based deposit insurance premiums are pursued, a "bonus" allowance should be allowed for home mortgages assets.

IV. Tax Based Finance Programs

The traditional deductibility of mortgage interest for homeowners, while not representing a new policy thrust, must be maintained as a cornerstone of our nation's housing policy. It is through this tax incentive that homeownership becomes feasible for literally millions of Americans. Without the mortgage interest deduction, the purchase of a home would be beyond the reach of many, particularly first-time and low- and moderate income homebuyers.

The Mortgage Revenue Bond program (MRB) has been an important source of below-market rate financing for qualified first-time homebuyers and investors in rental housing construction with targeted low-income units. The tax-exempt status of the bonds enables savings to be passed on in the form of below market rate financing. Additionally, the Mortgage Credit Certificate Program (MCC) has allowed an increasing number of first-time homebuyers to reduce their tax bill with a direct credit equal to a specified percentage of the interest paid on their home mortgage.

California has issued a large volume of MRBs over the years, peaking in 1985 at $7.8 billion. The threat of tax reform changes to the MRB programs severely dampened issuing activity in 1986 to $1.3 billion. In fact, the Tax Reform Act of 1986 did change the rules by including MRBs and MCCs under a single statewide volume limit for all tax-exempt private activity bonds. The new cap significantly reduces the dollar amount of tax-exempt housing bonds available to states, like California, where housing demand is relatively strong. To ensure the continuity and stability of these programs we recommend the following:

- Extend the authority to issue MRB's and MCC's beyond the December 31, 1988 sunset date. To eliminate the uncertainty that the need for repeated program extensions cause, consideration should be given to a permanent authorization of the MRB/MCC program.

- Review the limits on tax-exempt bond financing imposed by the Tax Reform Act of 1986 in light of the detrimental impacts it is likely to have on the volume of housing bond issuances in high housing demand states.

- Expand the MCC program by increasing the MRB-MCC conversion ratio as a means of ensuring a tax break for first-time homebuyers, thereby lowering the cost of new and existing housing.

- Expand issuance of multi-family Industrial Development Bonds (IDB's) to increase production of low- and moderate-income rental units. This is of critical importance in light of the number of potential conversions from federally-assisted units to private market rental units.

- Develop options for states to use their taxable bonding authority to provide financing assistance for low- and moderate-income homebuyers. For example, funds could be used to buy down rates on conventional loans or to establish programs whereby the state provides a cash subsidy for a downpayment at time of purchase which is then repaid at resale.

- Promote the establishment of city redevelopment agencies to utilize tax-increment financing. California requires cities to set aside at least 20 percent of their tax increment for low-income housing. According to California's Department of Housing and Community Development, more than 10,000 low- and moderate-income housing units were constructed during FY85 under these programs.

V. Housing Assistance Programs

The Housing Act of 1937 contained the first major federal program to provide housing for low-income households--the low-rent public housing program. This program offered local housing authorities a full capital subsidy on publicly owned housing units, with rental income covering operating and utility expenses. The program was revised after the war and again in the 1960s, setting income and rent limits and providing additional federal subsidies. The end result was a program which enabled the production of thousands of housing units for the very poor, the disabled and those on welfare. The Association recognizes that there will always be a need for public housing programs for those segments of the society whose needs are beyond the capabilities of the private sector.

Currently, the most visible form of housing assistance, particularly to low- and moderate-income households, has been federal direct assistance programs. These programs, which have required Congressional appropriations, have included mortgage interest subsidies, rent supplement payments on behalf of low-income tenants, and grants to state and local governments in support of housing.

Since the 1970s, direct federal assistance programs have placed a greater emphasis on subsidizing tenants in the existing stock of rental housing and less on the construction of new subsidized housing units. At the same time, the growth in direct federal housing programs has been cut back sharply. The current Administration has concluded that the primary housing problem of low-income households is affordability, not a shortage of housing units. Consequently, the Administration has proposed a system of housing vouchers to replace all of HUD's Section 8 programs.

In fact, two problems are on the horizon for privately owned but federally assisted rental housing projects that will adversely impact the supply of low-income units. The first is the likelihood that many owners who have the option to repay federal loans in the next 20 years will choose to do so, thus converting low-income assisted units to the private market rents. The second involves cases where the government chooses to discontinue federal assistance as contracts expire. In both cases, large numbers of units will be lost from the assisted housing stock.

In spite of the redirection of federal tenant subsidies away from new construction and rehabilitation, there remains some federal resources devoted to low-income housing through the Community Development Block Grant Program (CDBG), the Urban Development Action Grant Program (UDAG), and the new Rental Rehabilitation and Rental Housing Development Grant (HoDAG) programs. For example, the CDBG program was designed to give localities much greater discretion in designing their community development activities. Existing federal block grant programs should be comprehensively reviewed, and efforts should be made to modify and redesign these programs to ensure the productive use of the federal funds by state and local entities to address pressing housing needs.

In order to maintain and revitalize these housing assistance programs, it is essential that the federal government take more responsibility for funding low-income housing programs, while the development, administration and implementation of these programs should be conducted at the state and local level. The nature of housing programs for the poor should not have to depend on the budgetary problems of the federal government, but should instead be reflective of a studied and knowledgeable assessment of the housing situation specific to each state and locality. In this manner, a more focused approach will enable more efficient use of resources and reduce the federal government's administrative burden. Some specific recommendations in this area are:

- A revitalization of the public housing program, with efforts towards increasing the program's efficiency. Consideration should be given to implementing such changes as tenant participation in management of these projects.
- Incentives, such as the broadening of income requirements, should be provided to owners of federally-assisted low-income housing projects in order to keep units in the assisted housing stock.
- Federal monies should be targeted toward block grant funding targeted specifically to housing, in which states and localities assess their housing needs and administer the funds accordingly.
- Similarly, constraints on CDBG and UDAG should be removed so that these programs can utilize funds for new construction where appropriate.

VI. STATE/LOCAL PROGRAMS

As stated in the introduction, we favor an emphasis on implementing targeted housing programs at the state and local level in order to maximize community input and involvement as well as the chances of program success. At the state level, a viable, active Housing Finance Agency is essential for formulating programs tailor-made for a state's unique housing needs. As an example, several years ago California Housing Finance Agency (CHFA) developed Cal-First, a program specifically designed to meet the needs of the first-time homebuyers through a graduated payment mortgage program.

At the local level, communities need to increase the awareness of their residents of the need for programs designed to improve the housing opportunities for low-and moderate households. Education is the key to creating an environment in which these efforts can succeed. Only when the public fully understands the importance of housing programs to themselves and their communities will solutions be possible.

One area where local jurisdictions can have a major impact on housing is through providing maximum flexibility in building and zoning regulations. C.A.R. is on record as favoring the following types of polices:

- Laws that zone adequate land for various types of ownership and rental housing.
- Policies that do not attempt to limit growth and restrict residential development.
- Zoning policies that permit development at higher densities and encourage maximum site utilization.
- The provision of adequate infrastructure and other public facilities and services.
- Policies that streamline the permit and approval process, eliminating unnecessary and costly time delays.
- Policies that encourage innovations in development, and construction techniques and materials.
- Policies that encourage innovative product design to meet affordable housing needs.
- Policies that promote the use of surplus public land for the development of affordable housing in conjunction with the private sector.

In recent years, much attention has also been focused on the homeless. While there are no accurate counts of the number of homeless people, estimates run from between 250,000 to 2 million, with anywhere from 50,000 to 75,000 in California. Moreover, the number has grown sharply since 1980 and has included many single women with children. The problem of homelessness needs to be recognized as a social issue rather than as a narrow housing issue, and within this context, should be paid for by general revenues generated by federal, state and local entities.

However, in developing public support for broad based responses to the plight of homeless people, a case must be made for the need to encourage development and rehabilitation of low- and very low income rental housing. To this end, communities that enact laws to limit residential growth or control rents, are, in the long run, exacerbating the housing situation for low income households.

A recent study indicated, for example, that there is a direct relationship between a community's enactment of rent control with an increase in its local homeless population. The presence of rent control hinders private investment in housing construction, rehabilitation and maintenance and therefore works, in the long run, to frustrate the ability of a locality to meet the shelter needs of its lowest income residents. Growth control policies attempt to artificially limit the supply of new housing, thereby eliminating housing opportunities for a population of lower income families.

Though the federal government cannot directly intervene in local decision making regarding such policies, it can enact sanctions and incentives to provide a powerful message that such policies frustrate the nation's progress toward housing for all.

VII. Private Sector Approaches

Cutbacks in federal direct housing assistance has led to a number of alternative approaches for producing low-and moderate income housing. These techniques usually include a mixture of local government involvement, participation by non-profit/charitable organizations, relaxation of regulatory constraints and use of indirect forms of federal assistance, particularly tax incentives. While private sector efforts represent only a small contribution to the housing supply they should be supported as part of the overall effort to improve the housing situation. Examples of such efforts range from:

- The Enterprise Foundation - which provides funding and technical assistance to local non-profit housing corporation for rehabilitating or constructing housing for households with incomes of $10,000 or less.
- Joint Venture for Affordable Housing - a public-private partnership involving various organizations, in communities willing to reduce zoning regulations, utilizing cost-reducing techniques and innovative site planning.
- In addition, we would suggest that the following approaches should be considered:
    - Special IRA provisions for first-time homebuyers to enable them to utilize their IRA savings as a downpayment on a home without incurring any penalties.
    - A dedicated housing account or tax-deferred savings plan, like an IRA, to help first-time homebuyers save for a downpayment.
    - Sweat equity/urban homesteading programs, which increase housing affordability with homes which are sold or built at a discount to low-income households with the understanding that they will work to build or rehabilitate the structure themselves.

VIII. Conclusion

The California Association of REALTORS® is pleased to have the opportunity to submit this paper outlining "building blocks" for new national housing legislation. We have attempted to outline new approaches but also to suggest why some current programs deserve to be not only maintained, but strengthened. Existing programs, such as the FHA and VA, have successfully addressed the nation's housing needs and merit continued federal support as well as enhancements. Additionally, there are a variety of new approaches to housing affordability and supply problems that deserve to be incorporated into a national housing policy. We are delighted to be part of this process and would welcome the chance to provide further specific recommendations in the future.

A STRATEGY TO STIMULATE HOUSING AND JOBS
Submitted to the National Housing Task Force
Center for Public Dialogue
September 29, 1987

Introduction

The major housing problems are 1) the high cost of dwelling units, 2) the high cost of land, and 3) the low incomes of those who are ill-housed.

Our tax system, particularly the widely-misunderstood property tax, helps explain the persistence of America's chronic housing difficulties and holds vital keys to their solution. The conventional property tax:

--Penalizes with higher taxes those who provide and maintain decent housing, who generate construction jobs and who make neighborhoods more attractive.

--Rewards with lower taxes those who let their homes or rental housing fall into disrepair, spawning community blight.

--Undertaxes land values and adds to the nation's poverty by letting land speculators recoup the bulk of these values created by the community.

--Favors land holding over land using, creating artificial shortages of housing sites. This boosts urban-suburban land prices and drives residents and businesses away from cities into the countryside. It also wastes billions of dollars as under-utilized public facilities and services are duplicated.

--Taxes at scandalously high rates a basic human necessity. A 3% property tax may seem modest. But a 5% sales tax is imposed only once; the property tax paid year after year is equivalent to a 50% sales tax. A 28% income tax sounds high, but a company pays this on profits net of costs. If it earns 8% profit on capital, this is only 2.2% on full capital value (the basis on which rental housing pays property taxes, however meager the profit).

Proposal--a pro-housing property tax

Significant improvements in housing quality and affordability can be achieved by 1) reducing oppressive taxes now imposed on housing, labor and production and 2) by obtaining more revenues from community-generated land values.

Typical property taxes are imposed on land and improvements at the same rates. Provision should be made for differential tax rates; that is, substantially lower rates on homes and other structures, and higher rates on land values. This describes the "two-rate property tax" which has been remarkably successful in Pittsburgh and six other Pennsylvania cities.

Reduced taxes on dwellings mean lower purchase or rental prices. Will not "greedy landlords" pocket the benefits? They may try, but lifting tax disincentives creates a larger supply and market competition restrains prices.

Increased taxes on land mean lower prices of housing sites. This vital fact--the higher the tax, the lower the selling price--is counterintuitive and bears explaining: a lot's sale price is a capitalization of its actual or potential annual rent. The higher tax reduces the net rent and thus reduces the selling price. Will not owners "pass on" higher land taxes to purchasers/renters? Again, they may try, but price is set by supply, which owners of land cannot manipulate because the amount of land is fixed. As Will Rogers said, "Buy land--they ain't making any more."

Lower taxes on houses and higher taxes on land are recognized as fair. Those who work hardest to satisfy society's shelter needs are not hit with the heaviest tax burdens. Instead, socially-created values are recycled for public revenue. How does the community create land values? First, just by their existence, people create demand for space which translates into land values. Higher concentrations of people generate higher square-foot costs of lots. This is why land in New York City is more valuable than in Tulsa, and more valuable there than in Podunk. Second, the public works financed by the taxes of all the people spawn land values. Build a new highway, bridge, school, fire station, sewer line or subway and adjacent land values immediately soar.

Once the property tax is fairer and more palatable, onerous local, state and federal taxes that impede production and perpetuate the poverty of those who are ill-housed gradually can be replaced by revenue from the two-rate tax.

Federal role

While the property tax is primarily a state-local responsibility, the federal government has strong justifications for assisting in modernizing this tax.

The upside-down incentives of the property tax, already noted, have eroded scores of federal housing programs. For half a century, Uncle Sam has expended billions to fight slums, urban decay and poverty--picking up the bill caused to a considerable extent by the failings of local tax systems. The federal government can improve the property tax in the following ways:

--Research to pinpoint the lessons from pioneering experiments with the two-rate tax. What successes can be duplicated? What shortcomings can be avoided? What additional steps should be tested?

--Education and dissemination to show all who are concerned with housing and poverty issues that here, in the property tax arena, is a hopeful approach for meeting the shelter needs of poorer Americans.

--Carrots can be devised to encourage states and localities to re-examine present anti-housing tax policies. These may include technical assistance in assessment administration, feasibility studies and rate-setting adjustments;

bonuses in block grants or other housing programs for localities that adopt the two-rate tax; and priorities for two-rate tax localities seeking to qualify for housing-related federal aid.

--Sticks also may be devised. For example, when federally-funded facilities such as dams, parks or highways will predictably raise land values, sponsoring agencies may require localities to recapture a specified portion of those values from affected sites. Also, certain federal aid may be made contingent on localities meeting a schedule of progress toward use of the two-rate tax.

Conclusion

Many aspects of housing the poor need attention. The detrimental impacts of the property tax are emphasized here because, if not corrected, they will continue to undermine otherwise worthy federal and local housing programs.

Results to date of modest applications of the two-rate tax (see attachments) are impressive. They have encouraged more, better and cheaper housing.

Use of the two-rate tax, far from pitting builders against labor, owners against tenants, feds against locals, or homeowners against assessors and tax collectors, offers common ground on which all these interest groups can work together. It seems clearly to be a reform whose time has come.

Our Center appreciates the offer to contribute to this symposium of ideas and will be happy to cooperate with the Task Force in its important mission.

* * *

Walter Rybeck, Director
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STATEMENT TO THE UNITED STATES SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

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EXPANDING THE ROLE OF HOUSING COOPERATIVES AND NONPROFIT ORGANIZATIONS WITHIN A NEW NATIONAL HOUSING POLICY

by

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STATEMENT BY CHARLES F. DEAN, PRESIDENT
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I INTRODUCTION

The Cooperative Housing Foundation (CHF) was very pleased to receive a request from the Senate Subcommittee on Housing and Urban Affairs to help develop a new framework for a national housing policy. Clearly, we have reached a point where some major changes are needed if we are to do a better job of helping moderate- and low-income people meet their housing needs. We are hopeful that the role of housing cooperatives and nonprofit housing organizations will be expanded within the new national framework because these private organizations can help people obtain better shelter who otherwise could not afford it.

The Cooperative Housing Foundation has a 36-year record of achievement sponsoring the development of more that 60,000 homes in some 400 housing cooperatives throughout the United States. CHF has also been very active in international housing since 1964 through contracts and grants with the United States Agency for International Development (AID), the World Bank, and the United Nations (UN). We are currently working in more than 20 countries helping more than 200,000 of the very poorest people in urban squatter settlements and rural villages. We believe that some of the approaches and techniques which have been used successfully in other countries could be modified for use here in the United States, especially in the poorest areas along the border with Mexico, the poverty areas of the South, and Appalachia.

II THE PROBLEM

The problem of providing decent shelter for all Americans is serious but not unsolvable. Substantial progress was being made between 1968 and 1973 as a result of bipartisan support for the Housing Act of 1968, which established a ten-year national production goal of 2.0 million new units per year, with 600,000 units per year targeted for low- and moderate-income families. However, a moratorium was declared on most funding for federal housing programs in 1973. Since then, there has been a steady decline in the production of new housing for poor and moderate-income people in the United States.

Most of the 94 million units of housing in the United States are in relatively good shape and most Americans are well housed. However, too many people still live in very inadequate housing. Minorities, women as heads of households, inner city residents, and the rural poor suffer the most. Some recent reports predict a rise in poor households from 11.9 million in 1983 to 17.2 million in the year 2000, and a total need for new housing for low-income people of about 7.8 million units.

The total annual production of new housing in the Untied States has varied in recent years from 1.4 to 1.9 million units. Currently, it is at the annual rate of about 1.6 million units. However, almost all of this new construction is produced for sale or rent to middle- and upper-income families.

In many areas, low-income people are being displaced from existing rental projects as these projects are refinanced privately and federal controls no longer apply. An estimated 900,000 units of federally assisted, privately owned rental housing may be lost to lower income people during the next few years.

III EXPERIENCE IN OTHER COUNTRIES

Although a few countries such as Sweden have solved their housing problems, most have not. Many are faced with the same dilemma as the United States. The cost of standard new housing is far too high to be affordable to moderate- and low-income people. Governments are unable or unwilling to provide the funding necessary to subsidize the difference between housing costs and the amount that people can afford to pay. The private, profit-making housing producers continue to serve the needs of upper income families and government housing programs work at providing relatively small numbers of new units for the very poor, leaving a big gap for moderate- and lower-income working people. This gap is the place where housing cooperatives and nonprofit housing organizations can be most effective, if the new national housing framework provides flexible funding and support. These private sector organizations can help reach the poor with innovative self-help programs that are often more efficient than those implemented directly by government agencies.

One of CHF's most exciting new programs overseas is underway in Central America, where CHF is making loans for self-help housing, community services, and jobs in six countries. The program started in 1985 with a $10 million grant from the United States Agency for International Development (AID). It has since grown into a $16 million program with additional funds from local credit unions, housing cooperatives, and private organizations, and will eventually benefit more than 120,000 people in the poorest urban squatter settlements and rural villages.

The unique feature of this program is that, for the first time, AID funding for housing is being channelled through the private sector as a complement to the traditional flow of funds through government housing agencies. The results are exciting in that the housing loans and home improvement loans are reaching poorer people more quickly, the housing is less expensive, and most important, repayment of the loans is at 99%, which is unheard of in low-cost housing programs in the region.

The key to this program's success is the channelling of funds through the private sector, which eliminates most of the red tape and bottlenecks of past programs. The idea for this unique approach came out of the recommendations of the National Bipartisan Commission on Central America, headed by Dr. Henry Kissinger.

IV EXPANDING THE ROLE OF HOUSING COOPERATIVES AND NONPROFIT ORGANIZATIONS

During the past 14 years, there has been a steady decline in the amount of federal funding for housing in the United States. CHF joins many other organizations in deploring these cutbacks and strongly supports an increase in overall housing funding so that the Department of Housing and Urban Development (HUD), and Farmers Home Administration (FmHA), and the Bureau of Indian Affairs can expand and continue the best of their current programs. At the same time, the new national housing framework should include a much greater role for private, nonprofit organizations and cooperatives which are concerned with housing for moderate- and low-income people. These organizations can provide an effective delivery system to reach the poor by providing more shelter for each dollar spent.

During the past ten years, thousands of community-based, nonprofit organizations have become involved in housing throughout the United States. Cooperative housing organizations have also grown and gained experience. Some of the largest and strongest cooperative organizations, such as the National Rural Electric Cooperative Association (NRECA) and the Credit Union National Association (CUNA), have also become more involved and are interested in increasing housing activities in the future. Still other nonprofit organizations are related to religious groups and labor organizations. Some of these cooperatives and nonprofit housing organizations are efficient, well administered, and technically competent. Others are less experienced and need technical and financial back-up. However, as a whole, they represent a growing and potentially powerful resource for meeting the housing needs of low- and moderate-income people in the years ahead.

In western Europe, cooperatives and nonprofit housing organizations account for the production and management of more that 20% of all housing in such countries as Germany and Austria. In Scandinavia, more than 25% of all housing is developed by cooperatives. Cooperatives can play an especially important role here in the United States in the rehabilitation and conversion of rental housing to ownership by the residents. Such conversions can help residents avoid displacement as developers buy up old complexes and convert them to higher-income condominiums. Cooperatives can also help rural people with home improvements and "scattered-site" cooperatives can help elderly Americans to continue to live in their old neighborhoods, avoiding premature moves to nursing homes or other institutions.

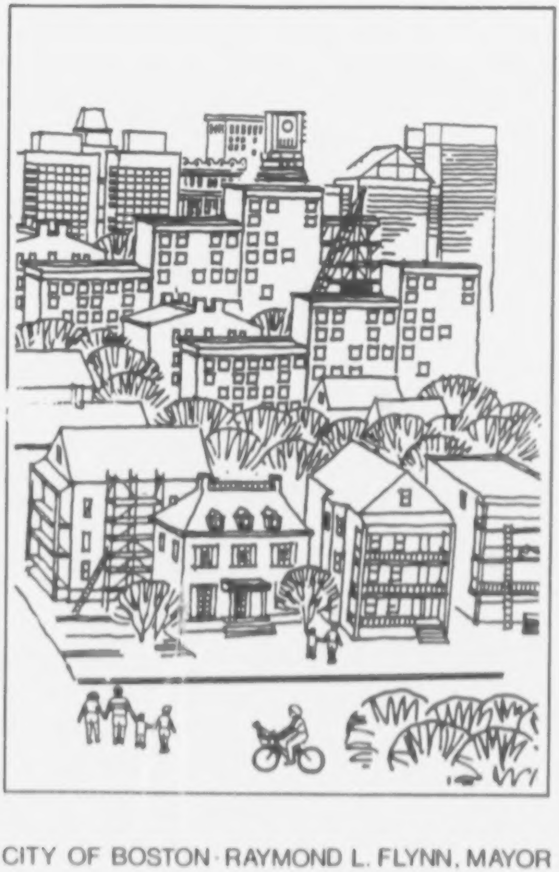
There are already several examples where federal funding has been successfully provided for housing through private or mixed public/private institutions. One is the Neighborhood Reinvestment Corporation (NRC), which was established by the Housing and Community Development Act of 1978 and is doing important work around the country in upgrading urban neighborhoods. Another example is the National Cooperative Bank (NCB), established about ten years ago with federal funds but operating now as a private sector bank owned by the cooperatives it serves. The NCB has an impressive housing portfolio exceeding $200 million and operates as a very efficient, private sector housing bank with a minimum of red tape and maximum service.

V CONCLUSION

Many recent housing reports and news articles have called attention to the housing crisis that poor and moderate-income people face here in the United States. If we are to develop an effective new framework for housing in America, we should create a new, more prominent place for cooperatives and other nonprofit organizations within that framework. We should also provide more funding through private sector channels to allow these organizations more flexibility in developing innovative shelter projects, especially for the working poor.

A HOUSING AGENDA FOR AMERICA

A FEDERAL-CITY PARTNERSHIP



CITY OF BOSTON · RAYMOND L. FLYNN, MAYOR

SEPTEMBER 1987

A HOUSING AGENDA FOR AMERICA

A Federal-City Partnership

Raymond L. Flynn*

Decent, affordable housing is the American Dream. The task for the next president, and the next Congress, is to begin to fulfill the promise first made by Congress in 1949 of a "decent home" for all Americans.

In this article, I want to recommend three areas that can form the basis of a new direction in federal housing policy. The first deals with homelessness; the second with preserving the existing stock of subsidized housing; and the third is expanding the supply of affordable housing.

During the past few years, the rising tide of homelessness has put the nation's housing crisis back on the front pages. The sight of Americans sleeping in alleyways and streets has stirred the country's conscience. It has led to a wide range of grass roots efforts -- by religious and other volunteer groups, as well as local governments -- to provide the homeless with shelter and food. In Boston, for example, we have more than doubled the number of emergency shelter beds since 1984. Surveys conducted by the U.S. Conference of Mayors' Task Force on Hunger and Homelessness, which I have the honor to chair, reveal that cities and volunteer groups are stretching their limited resources to provide basic services for the homeless, but the need far surpasses available resources.(1)

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If the record numbers of people on America's streets had been driven there by a natural catastrophe, many states would be declared disaster areas. But even though homelessness is a national problem, the Reagan administration has given only lip service to the issue, and has taken no responsibility for its role in swelling the ranks of the homeless through its cutbacks and policies.

Homelessness is a symptom of a much deeper problem -- the nationwide shortage of affordable housing. This problem, in turn, is a direct result of the federal government's withdrawal from housing assistance.

Those of us on the front lines of the housing crisis see the impact of these cuts every day. We look at vacant buildings we want to rehabilitate. We look at empty lots where we'd like to see new construction. We look at skyrocketing rents, which force families to choose between such basic necessities as heat, food, and medical care. We see energy bills that could be cut by weatherization programs. We look at long waiting lists for public and subsidized housing. And we look at homeless people in our streets, alleyways, subways, and shelters, and see Americans who deserve decent, affordable, permanent housing.

In the late 1980s, however, housing is a growing concern among many sectors of our population. It is no longer simply a problem for the poor, but also for working-class and middle-class Americans. Because the housing crisis is widespread, we can now fashion a federal housing policy with broad appeal -- one that can help restore the American dream and the promise of opportunity for all. Affordable housing must be a centerpiece of a new urban agenda.

Indeed, from the late 1940s through the late 1970s, the housing conditions for the American people steadily improved, thanks primarily to federal housing policies. During that period, the federal government was committed to improving the quantity, quality, and affordability of housing for all income groups and age groups. Home ownership rates increased steadily, reaching 65 percent in the 1970s. Low-income Americans were served with a variety of programs to boost subsidized rental housing. The quality of housing improved as well. During this period, the number of Americans living in substandard units declined significantly. Of course, there was always room for improvement. But in that three-decade period, America set high standards for itself, and applied its talent and resources to reaching the goal of decent, affordable housing for all.

In this decade, however, Washington has transformed the American dream into a nightmare.

Since 1981, the federal government has all but dismantled the nation's housing programs. The number of new federally assisted units has plummetted from above 200,000 to about 25,000. Housing programs funded by the Department of Housing and Urban Development (HUD) have been cut from over $33 billion to under $8 billion -- a 75 percent cut.

The Impact of Federal Withdrawal

The consequences of the federal government's withdrawal from housing have been disastrous. We have seen a steady erosion in the quality of life in our communities. Americans have begun to lose confidence in the ability of our economy to "deliver the goods." The housing crisis has become the number-one topic of conversation across the country. From posh suburbs to inner-city neighborhoods, from city halls to state houses, from corporate boardrooms to neighborhood bars, from young families to the elderly, the shortage of affordable housing is on everyone's mind.

Home ownership -- the symbol of the American dream -- is increasingly beyond the reach of the American people. In 1949, the average 30-year old home buyer needed to spend 14 percent of his paycheck to afford the typical home. By 1985, the figure had risen to 44 percent. Since 1980, home ownership rates have fallen each year. For young families, in particular, this dream has become an illusion. The home ownership rate among 30 - 34-year olds, for example, declined from 59.3 percent in 1981 to 54.7 in 1985. A recent report by the Joint Center for Housing Studies of the Massachusetts Institute of Technology (MIT) and Harvard University warned that "young households feel thwarted by the high cost of home ownership and alarmed about their prospects of ever being able to buy."(2) According to American Demographics, the proportion of young adults living at home with their parents is higher now that it has been at any time since the 1950s.(3)

The rise in home ownership costs has pushed many households back into the rental market. Because of this growing demand, rents have skyrocketed, rising much faster than income. Renters are thus paying a growing portion of their income for rent. (The average rent burden grew from 20 to 29 percent of income between 1970 and 1983.) This is particularly true for the poor, whose ranks are swelling nationwide, and who have the least discretion in allocating their limited incomes. According to the MIT-Harvard study, one-quarter of the poor pay over three-quarters of their income for rent. (The new tax law makes matters worse, by eliminating incentives to build new rental housing and by pushing current landlords to raise rents.)

The most serious consequence of this housing crisis is the rise in homelessness. A 25-city survey, results of which we released in December 1986 by the U.S. Conference of Mayors, found an increasing demand for emergency shelter across the country. Perhaps the most tragic finding was the growing proportion of families and children among the nation's homeless population.(4) A follow-up survey of 29 cities, released in May 1987, found that the number of families seeking emergency shelter had increased by 31 percent in two years. Every survey city reported that the number of families temporarily living with friends or relatives has increased.(5)

This epidemic of homelessness in our affluent society is a national scandal.

The housing crisis is also a problem for American business and the overall economy. High housing costs make it difficult for employers to attract employees. The chief economist for the Port Authority of New York and New Jersey recently told the New York Times: "Companies are not going to expand here when their employees can't afford homes."(6) The business community needs to become a more vocal advocate for affordable housing.

The Search for Solutions

During the 1980s, as the Reagan administration dismantled his federal housing programs, state and local governments have assumed a greater responsibility for dealing with the escalating demand for affordable housing. Out of necessity, they have developed many innovative programs, combining public and private initiatives, including partnerships with foundations and community-based organizations.(7) Of course, there is no way that cities and states can fill the huge gap created by the federal government's withdrawal from housing. Only the federal government has the resources to meet this basic need. But many of the creative efforts of local governments can provide models for federal programs in the future. What is needed now is a partnership between the federal government and our cities, with the federal government providing the resources and the localities providing the initiative and talent.

In housing, the problem is not to get the federal government off our backs. It is to get federal dollars back in our communities. We need to create a broad, bipartisan coalition to support an expanded federal role in housing.

Congress is currently (August 1987) reviewing a $16 billion housing bill to expand funding for existing programs while initiating a few new programs. This is the first major housing bill since President Reagan took office. Certainly this legislation neither overhauls our housing policy nor gets close to meeting the nation's housing needs. But it does reflect a changing mood in Congress, a first step in recognizing the housing crisis, and a response to growing grassroots pressures. The chairpersons of the two housing subcommittees in Congress -- Senator Alan Cranston (D.-Cal.) and Rep. Henry Gonzalez (D.-Tex.) -- are committed to developing a new housing policy that restores the federal government's role in housing. Various task forces and ad hoc groups have been set up to solicit "new ideas" to restore and redirect the federal government's role in housing.

Growing concern in Congress, along with the current Presidential campaigns, will trigger a national debate on housing policy, waged in the press, through studies and reports, and election campaigns at all levels of government. This presents housing advocates with a rate opportunity to inject their ideas into the debate and to promote a new vision -- and a new direction -- for national housing policy.

The Massachusetts experience suggests that it is possible to create a political climate that strongly supports housing. There is a broad constituency for affordable housing, which is led by Governor Michael Dukakis, and includes the state legislature, mayors, private developers, community development corporations (CDCs), unions, religious organizations, tenant groups, and neighborhood associations. The state's business community understands that to attract employees and to sustain economic growth, we need affordable housing. Business leaders have helped to create the Boston Housing Partnership and the Massachusetts Housing Partnership, umbrella organizations of private sector, government, and community leaders that have played key roles in expanding housing opportunities for low- and moderate-income people.

New Directions: A Three-Part Approach

What should federal housing policy look like in the post-Reagan period and through the end of this century? Three components are:

- o First, emergency shelter and services for our most vulnerable citizens -- the homeless and near-homeless
- o Second, preservation of our existing subsidized housing inventory
- o Third, a major supply program to build affordable housing, based primarily on nonprofit developers

Emergency Shelter and Services

As a nation, our first priority must be to help our most vulnerable citizens. In the 1980s, as noted earlier, we have witnessed an increase in the ranks of poor, particularly among women and children. Almost one-quarter of children under the age of six live in poverty. In general, about one out of seven Americans live below the poverty threshold. Structural changes in the nation's economy have increased the number of low-wage jobs and working poor, people whose salary is below the poverty line.

Federal cutbacks have cut huge holes in the so-called safety net, leaving more and more Americans vulnerable and needy. For example, job training programs slashed from $11.5 billion in FY 1981 to $2.4 billion in FY 1986. Further, with the growing vulnerability of Americans to layoffs and temporary (but often calamitous) poverty, the percentage of unemployed persons receiving unemployment insurance benefits hit a record low in 1986; it is now only about half what it was in 1980, when the unemployment rate was about the same level as it is today.(8)

The homeless are those who have suffered most from the widening holes in the safety net. The cumulative effect of federal cutbacks and reductions is the tragedy of growing homelessness and hunger in this wealthy nation.

America's homeless population comprises poor persons who, for a variety of reasons, cannot afford a permanent roof over their heads. A growing number of the homeless are families, particularly children, who must live the rest of their lives with the emotional scars and physical problems created today by America's failure to provide decent food and housing.

In addition, a substantial segment of America's homeless are mentally ill persons. They are victims of the policy of deinstitutionalization, begun in the 1960s, which emptied our nation's mental hospitals without providing adequate resources for community-based facilities. Nationwide, the number of persons institutionalized in mental hospitals declined from 505,000 in 1963 to 138,000 in 1980. The nation's homeless shelters are often filled with these mentally ill persons. For example, at the Pine Street Inn, Boston's largest shelter, between 50 and 60 percent of the guests on any given night suffer from mental illness. Many shelters have become, de facto, America's new mental institutions.

The most frustrating aspect of homelessness is that Americans have the will to address this most basic human need. Cities around the country are working with individuals and organizations who are giving their hearts and souls to others in need. I have been privileged to work with advocates such as Mitch Snyder of the Community for Creative Non-Violence, and Robert Hayes of the National Coalition for the Homeless, as well as many staff and volunteers in Boston's shelters and soup kitchens, who reflect the many caring people who give us hope for the American spirit.

We must give these people the resources they need to help the homeless. Private charity and local government cannot, on their own, provide these resources.

Our immediate response must be to restore the safety net for these vulnerable Americans. The One Hundredth Congress took an important step to provide this emergency assistance.

In Spring of 1987, the Congress passed a $425 million bill sponsored on a bipartisan basis, to provide funds for the homeless. House Speaker Jim Wright carried through on his pledge to "fast track" the legislation. The bill, which will expand emergency shelter, food, and health care for the homeless, is a vital first step. It will help cities like Boston that are stretching their limited resources, working with nonprofit groups and foundations to add shelter beds, soup kitchens, rent subsidies, and mental health and health programs for those who live in the streets and in the shelters. Its swift passage was a fitting tribute to its cosponsor, the late Representative Stewart McKinney, (R.-Conn.), who died in April 1987.

In addition, Senators Albert Gore (D.-Tenn.) and Daniel P. Moynihan (D.-N.Y.) have filed the Homeless Persons Survival Act. Working closely with the National Coalition for the Homeless, Senators Gore and Moynihan, with Representatives Mickey Leland (D.-Tex.) and Leon Panetta (D.-Cal.), drafted a bill targeted at $4 billion that would provide housing, food, and social service benefits needed to serve the many faces of homelessness.

We also need funding specifically to create transitional housing for women and children. Transitional housing is designed to help women get back on their feet and become independent following a family tragedy -- a divorce, an abusive domestic situation, widowhood, job loss, or eviction. It is a self-help approach that provides the support needed in order to live independently. It is an opportunity to leave a shelter and prepare for independent living. In Boston, we have worked closely with women's groups and social service providers to create transitional housing programs.

It is critical to expand resources to assist the homeless. The ultimate goal, however, is to eliminate the problem of homelessness altogether. The major step toward achieving that goal is to protect and expand permanent, affordable housing.

Protecting Existing Housing

The most valuable housing resource in the nation is the existing inventory of public and subsidized housing. During the past 40 years, the federal government has helped construct more than three million units of low-income rental housing. This includes approximately 1.3 million units of public housing and about two million units of private assisted housing.

The American public has a substantial investment in this housing inventory. There is absolutely no way to replace these units if they are lost as low-income housing; it is much more cost-effective to preserve this inventory than to build another 3.5 million low-income housing units. In addition, the social cost of losing these units -- the displacement of families, the public funding to serve the families made homeless, the jump in welfare, and related public dollars -- would be overwhelming. The federal government should protect the public's investment.

We cannot allow HUD to become simply an auctioneer at a garage sale.

Toward this end, the Reagan administration and Congress should abandon all plans to sell off public housing. A HUD-sponsored demonstration project is currently under way. Only a handful of public housing agencies even volunteered for the program. They recognized it as simply an effort to rid the federal government of its commitment to support public housing -- in effect, to balance the federal budget on the backs of the poor. Allowing tenant groups the opportunity to participate in management is a useful concept. But selling low-income public housing to tenants -- without safeguards against windfall profits or any attempt to replace these scarce units -- is a flagrant misuse of public dollars.(9)

What makes more sense is to encourage tenant self-help and long-term affordability. To do this, HUD could help public housing tenants to transform their developments into resident-owned and managed limited-equity cooperatives. To make this feasible, HUD would have to provide tenants with the down payment, provide ongoing operating subsidies, and provide technical assistance to help tenant groups develop management skills. For the rest of the public housing stock, Congress must provide resources to guarantee these residents safe, decent housing and -- through a variety of antipoverty programs -- opportunities to lift themselves out of poverty.

A more pressing issue is the fate of the 1.9 million private, government-assisted housing units across the nation. This inventory is a ticking time bomb waiting to explode. Recent General Accounting Office (GAO) reports revealed that these developments face two related crises: First, project-based subsidies (primarily Section 8) are scheduled to expire; second, 20-year use restrictions (which allow owners to opt out of their pledge to guarantee low- and moderate-income housing by prepaying the mortgage) are scheduled to expire.(10) When these restrictions expire, these low-income units could be turned into market-rate housing or (in weak markets) go bankrupt. Either way, tenants would be displaced and pushed into a tight housing market. Between now and the year 2000, most of the 1.9 million assisted units will be at risk as their subsidies or use restrictions expire. Between 200,000 and 900,000 units may be lost by 1995 alone.

Now is the time to plan for this inevitable situation. Policies must be devised to preserve these developments as affordable housing.

Owners must be encouraged not to prepay mortgages, while funds must be allocated to continue the subsidies. The most cost-effective use of federal funds, however, would be to assist nonprofit groups and resident-owned cooperatives to purchase and manage this inventory, rather than simply pour more federal subsidy dollars into filling the gap between what tenants can afford and the rents needed for absentee private landlords to make a profit.

In Boston, we have had successful experiences transforming at risk HUD-subsidized projects into cooperative and nonprofit housing. HUD, in fact, has occasionally seen the wisdom of this cost-effective approach by allowing residents to use their rent subsidies as equity for cooperatives, and by allowing nonprofit groups, through the Boston Housing Partnership (BHA), to buy distressed projects, rather than selling them off to the highest bidders. This approach saves taxpayers dollars, gives residents a greater stake in their homes, and guarantees the long-term presentation of affordable housing by removing it from the speculative market.

Congress must create incentives for current owners to either retain these units as low-income housing or sell them to nonprofit groups and tenant cooperatives. Congress should appoint a task force -- with representatives of tenants, private owners, nonprofit groups and local, state, and federal government -- to develop a workable approach to protect this inventory.

In the meantime, Congress should place a moratorium on prepayments -- or at least require owners to give substantial prior notice of their intent to prepay -- in order to provide time to find solutions that will preserve this low-income housing. This would simply parallel the moratorium Congress already placed on Farmers' Home Administration housing.

We must not allow this ticking time bomb to explode. If it does, the victims will be millions of low-income Americans, their neighbors, and the cities they live in.

The New Partnership: A Community-Based Supply Program

We are a nation of builders and dreamers. To maintain our country's greatness, to expand opportunities for all, we must continue this legacy. We must build more housing to sustain the American dream.

We continue to suffer from a shortage of affordable housing. We see this not only in the expanding waiting lists across the country for public housing, and not only in the many housing vouchers that go unused because of a tight private rental market, but also in the growing demand for moderate-income home ownership. For example, the Bricklayers' and Laborers' Union recently constructed 17 brick townhouses in South Boston and sold them, at cost, for $70,000 -- less than half the market value. More than 200 persons applied for these units, which were sold by lottery. Soon after the Union started construction on another 48 units, in Charlestown more than 1,700 families applied. The story is the same elsewhere -- for example, the long wait in Brooklyn to buy a home through the Nehemiah Program (named after the biblical figure who rebuilt Jerusalem.)

To meet this demand, we must expand the supply of housing, both rental and owned for low-income and moderate-income persons. An ambitious supply program will not only help satisfy this demand, it will also create many new jobs, help rebuild our communities, and restore confidence in our country's promise of opportunity.

The question is not whether to embark on a new supply program, but how to do so.

Fortunately, much can be learned from the recent efforts of local governments and community groups that -- during these lean years of federal cutbacks -- have found creative ways to build affordable housing. Across the country, the 1980s has been a period of renewed local initiative. In particular, many cities and states have nurtured community-based, nonprofit housing developers, who helped rebuild neighborhoods that the federal government and for-profit developers had ignored or abandoned.

These grass roots efforts -- by churches, neighborhood groups, unions, and others -- planted many seeds. Local and national foundations, along with the local government, provided financial support to help these seeds grow. The Local Initiatives Support Corporation (LISC), launched by the Ford Foundation, and the Enterprise Foundation, headed by developer James Rouse, have worked closely with these nonprofit groups to develop new construction, rehabilitation and financing techniques. In Brooklyn, a coalition of churches launched the Nehemiah Program, which is rebuilding a blighted neighborhood with low-cost housing for working-class homeowners. The churches provided interest-free construction loans, the city donated 30 blocks of vacant land and granted each buyer a $10,000 interest-free second mortgage, and the state provided below-market mortgages from a tax-exempt bond.

Across the country, these nonprofit community-based, efforts have now borne fruit. Thousands of units of affordable housing -- sold at or below construction costs -- are now in place that would not have been there without these initiatives. These groups have become sophisticated developers -- a vast improvement over some well-intentioned but naive nonprofit groups that emerged in the 1960s. This generation of nonprofit builders combine social concern with hardnosed business skills.

Some cities have formed umbrella organizations of community-based, nonprofit developers to improve efficiency and expand the scale of development. The Boston Housing Partnership (BHP), the acknowledged leader of this approach, is a consortium of private, community, and government leaders, whose board includes the heads of major banks, the directors of nonprofit CDCs, and top government officials. The city government provided $4.1 million in Community Development Block Grant funds(11), and the private foundations contributed $430,000 for initial seed capital and acquisition; the state provided financing and rent subsidies. Through BHP, 10 nonprofit groups have renovated 700 units of low-income rental housing -- a $38 million project. The BHP is so successful that a consortium of local and national foundations, including LISC and the United Way (which is supporting housing for the first time) has committed $4 million for a six-year support program. the BHP's next project is the rehabilitation of 950 apartments in HUD-owned buildings that were saved from HUD's auction block by community pressure.

New York City, Chicago, Cleveland, and other cities are developing similar partnerships.

These efforts are working well. But local governments, churches, and foundations simply lack the resources to turn these small success stories into a major new nationwide supply program for affordable housing. Only the federal government has those kinds of resources. It is now time for Washington to learn the lessons from these local efforts. What is needed is a partnership between the federal government and these community-based housing efforts.

The mechanism for realizing this goal is a National Community-based Housing Partnership program. Through this program, the federal government would provide matching funds to locally based, nonprofit housing initiatives. Federal dollars would be matched by local government, business, private foundations, the United Way, churches, or other entities. Matching grants are a good way to encourage local efforts by helping those communities that help themselves. This program is the best way to leverage federal funds.

First, the program would provide federal matching grants for seed money. This would enable local, nonprofit housing partnerships to start, or expand, their development efforts. The grants would provide these groups with up-front funds for staff to do planning, and architectural work, put financing together, and acquire abandoned buildings for rehabilitation or vacant lots for new construction.

Second, the federal funds would provide capital grants to community-based partnerships for the construction of housing. Direct capital grants are much more cost-effective than the current approach. They reduce the long-term debt that escalates the cost of housing far beyond construction costs.

Ironically, the Department of Defense, which uses this approach to house military families, has a lot to teach us about housing development. Over the years, the military has constructed 400,000 units of family housing. It is financed and operated for the most part by direct capital grants appropriated by Congress -- eliminating both the debt burden and the speculative resale that drive up the cost of conventional private housing.

Who can turn down an idea that draws on both local CDCs and the Pentagon for its inspiration?

Housing, especially for low- and moderate-income people is expensive to build. But Congress need not carry the stigma of simply throwing money at problems. A National Community-based Housing Partnership program is a viable, cost-effective alternative to some of the wasteful federal programs of the past and the do-nothing approach of the present. By learning from the successes of grass roots initiatives, the federal government can chart a bold new course in housing policy.

Making Housing a Priority

This three-pronged approach to solving our deepening housing crisis -- providing emergency shelter and services for the homeless, preserving the existing inventory of assisted housing, and creating a supply program linking federal dollars to community-based partnerships -- provides an opportunity to place housing at the top of our nation's agenda once again. There is, across the country, a growing awareness that while there is much to learn from the mistakes of past federal housing programs, the answer is not simply to completely withdraw from housing. We need a new direction, one that will address the housing needs of our citizens, but do so in a way that is cost-effective, flexible, and sensitive to local approaches. Equally important, it should target resources to those who need it most -- low- and moderate-income Americans.

Government must play a leadership role in expanding housing opportunities for all Americans. In housing, there is no such thing as a completely private free market. The private housing industry is aided by a wide (but often invisible) array of government supports -- from tax deductions for builders and buyers, to insurance for lenders, to secondary market mechanisms. This support system is an essential component of our private housing market, and is responsible for the considerable housing progress our nation made during the three-decade period following World War II.

The federal government must extend, not reverse, this progress, by providing funds to build and preserve housing for low- and moderate-income Americans. It must do so in partnership with local and state governments that have demonstrated their capacity to create innovative approaches to housing, but lack the resources to meet the needs.

We still have a way to go to fulfill that promise, first made in 1949, of a decent home for all Americans. We should not stop our efforts until we have succeeded.

NOTES

[1] U.S. Conference of Mayors, *Responding to Homelessness in America's Cities*, Washington, D.C., 1986; *The Continued Growth of Hunger, Homelessness and Poverty in America's Cities*, Washington, D.C., 1986.

[2] H. James Brown and John Yinger, "Homeownership and Housing Affordability in the United States: 1963-1985," Joint Center for Housing Studies of the Massachusetts Institute of Technology and Harvard University, 1986.

[3] Martha Riche, "Mysterious Young Adults," *American Demographics*, February 1987.

[4] U.S. Conference of Mayors, *The Continued Growth of Hunger, Homelessness and Poverty in America's Cities*, Washington, D.C., 1986.

[5] U.S. Conference of Mayors, *A Status Report on Homeless Families in America's Cities*, 1987.

[6] Thomas J. Lueck, "Region's Growth Tied to Housing and Training," *New York Times*, March 5, 1987.

[7] A compendium of state/local housing initiatives can be found in the following: James Pickman, Benson F. Roberts, Mindy Letterman and Robert N. Mittle. PRODUCING LOWER INCOME HOUSING: LOCAL INITIATIVES, Bureau of National Affairs, Washington, D.C.,1986; Mary K. Nenno, NEW MONEY & NEW METHODS: A CATALOG OF STATE AND LOCAL INITIATIVES IN HOUSING AND COMMUNITY DEVELOPMENT, National Association of Housing and Redevelopment Officials, Washington, D.C., 1986; John

Sidor, STATE HOUSING INITIATIVES: A COMPENDIUM, Council of State Community Affairs Agencies, Washington, D.C., 1986; DECENT AND AFFORDABLE HOUSING FOR ALL: A CHALLENGE TO THE STATES, National Governor's Association, Washington, D.C., 1986.

8 Center on Budget and Policy Priorities, Smaller Slices of the Pie: The Growing Economic Vulnerability of Poor and Moderate Income Americans, Washington, D. C., 1985.

9 Hilary Silver, Judith McDonald, and Ronald J. Ortiz, "Selling Public Housing: The Methods and Motivations," Journal of Housing, November/December 1985; Peter Dreier, "Public Housing for Sale," New Republic, August 4, 1986; Morton J. Schussheim, "Selling Public Housing to Tenants: How Feasible, "Congressional Research Service, Washington, D.C., December 1984, and E. Jay Howenstine, "Selling Public Housing to Individuals and Cooperatives: Lessons from Foreign Experience," Urban Law and Policy, 7, 1983.

10 "Rental Housing: Potential Reduction in the Privately Owned and Federally Assisted Inventory," U.S. General Accounting Office, Washington, D.C., June 1986; and "Rental Housing: Potential Reduction in the Section 8 Existing and Voucher Inventory," U.S. General Accounting Office, October 1986.

11 This is a good example of the importance of federal Community Develoment Block Grant funds. The CDBG program provides flexible funds to help cities address their diverse housing, economic development, and human service needs. CDBG funds have been a major victim of Reagan's budget cuts. Instead, the program should be expanded in funding and scope.

CITY HALL
LOS ANGELES, CALIFORNIA 90012

September 22, 1987

Honorable Alan Cranston
U.S. Senator
United States Senate
Washington, D.C. 20519

Dear Senator Cranston:

To assist with your effort to introduce landmark housing legislation for the Nation, we have collected housing policy proposals from various agencies of the City of Los Angeles. Fifteen proposals are presented along with the letters from each City agency which describe the rationale for each one.

As requested in your initial announcement of this legislative project, we are submitting these prior to October 5 so that they can be incoporated into your process of review through conferences and meetings in Washington and throughout the country.

We hope these suggestions are useful and are thankful that you are undertaking such a major legislative initiative which will respond to the housing problems of the Nation and those of the people of the City of Los Angeles.

Yours truly,

John Ferraro
President, Los Angeles City Council
Chairman, Intergovernmental Relations Committee

Bob Farrell
Robert Farrell
Chairman, Grants, Housing and
Community Development Committee

Proposals for Federal Housing Policies

1. Provide Federal funding for rental housing developments which reserve 20% of their units for very low income households using the following guidelines:
    - allocate funds to localities on a semi-entitlement basis
    - limit eligibility to larger jurisdictions with documented housing needs and proven housing production records
    - require local plans allocating local resources (such as expedited processing and density bonuses)
    - have a guaranteed amount of minimum funding to all local governments to operate a serious and well planned program
2. Double the volume authority available for tax-exempt housing bonds, either by increasing the "private activity" bond allocation or through a separate allocation for housing bonds.
3. Extent beyond the current 1988 sunset date, the availability of single family housing bonds.
4. Give clear legislative mandate to the federal mortgage agencies - FNMA, FHLMAC and GNMA - to provide the credit enhancements needed by local governments to issue tax-exempt and taxable housing bonds.
5. Oppose creation of a new housing block grant which eliminates current housing programs, such as Rental Rehabilitation and Housing Development Grants, and which is funded only by current resoures.
6. Oppose the abandonment of past commitments such as housing assistance payments contracts. Respond to the expiration of low income rent restrictions which are scheduled to end soon. New federal policy should:
    - establish a pre-payment moratorium to prevent the expiration of rent restrictions
    - apply a windfall tax to conversions of assisted housing to market housing and provide tax advantages to owners who sell to buyers willing to maintain low income restrictions
    - establish a FHA refinancing program to protect against rent increases and continue subsidies to tenants.
    - prohibit displacements of tenants where contracts expire and/or provide relocation to comparable housing
    - allow non-profits or current tenants a right of first refusal to acquire expired units

7. Establish annual nationwide housing production goals such as the 600,000 unit goal set in 1968.

8. Structure new housing programs to address family, elderly and those with special needs - handicapped, recently deinstitutionalized, emotionally disturbed, runaways, and the homeless.

9. New programs funds should contain special incentives and funds for management of assisting the "hard to house" - families with poor credit histories, deinstitutionalized mental patients, homeless, etc.

10. FHA should reinstitute its "Special Risk Fund" to allocate a percentage of its loans to insure with less stringent underwriting standards, housing developments in redevelopment areas or for the very low income households.

11. Include the use of nonprofit organizations and community based organizations in federal housing programs.

12. Provide assistance for seismic rehabilitation which includes long term, low interest loans with repayment based on the building's ability to absorb the new debt.

13. Raise the income limits for households entering public housing units (conventional public housing) and establish maximum income limits for continued occupancy.

14. Include anti-drug programs and protective services as eligible costs in using funds provided for public housing operations.

15. Amend rules regarding site selection and prototype costs for public housing so that instead of allocating units, funding is allocated to give Public Housing Authorities the flexibility to produce safe, decent and sanitary housing within quality standards of the community.

ATTACHMENT

CITY OF LOS ANGELES
CALIFORNIA

TOM BRADLEY
MAYOR

[illegible]
[illegible]

COMMUNITY DEVELOPMENT
DEPARTMENT
[illegible]
[illegible]
[illegible]

AUG 26 1987

C.F.87-1340
C.D. Citywide
Contact:
Ralph Esparza X3406
Dave Perel X6505

Hon. Mayor Tom Bradley
Mayor, City of Los Angeles
Room 305, City Hall

[illegible]
AUG 27 [illegible]
[illegible]

Attention: Grace M. Davis
Deputy Mayor

GRANTS TRANSMITTAL: Proposed Federal Housing Policies
(Farrell-Flores Motion)

NARRATIVE

Transmitted for your review, approval, and further processing are a series of proposals for submission to Senator Alan Cranston for his consideration in the development of a new national housing policy and program. This report has been prepared in response to the Farrell-Flores motion (C.F. 87-1340).

Background

Sen. Alan Cranston, in assuming the chairmanship of the Housing Subcommittee of Senate Banking and Currency Committee, has announced his intention of enacting new federal housing initiatives during the next two years. The timing could hardly be more appropriate given the direction of federal housing policy during the past six years.

With the elimination of the Section 8 new construction program in the first year of the Reagan Administration the federal government was without a low-income housing production program for the first time since the beginning of the New Deal. During this period part of this gap was closed by this city and other state and local governments through mortgage revenue bond financing. However, this tool was severely restricted by the Tax Act of 1986. The Tax Act placed severe volume limits on such financing (a 75% reduction this year and an 80% next year from the level of issuance in California in 1984) and unrealistically narrow income targeting (from a 20% set aside for households below 80% of median to 20%

for households below 50% or 40% for households below 60% of median for multifamily housing).

Congress did enact a limited housing production program in the form of the Housing Development Grant program. This program provides flexible development grant assistance for individually approved projects. However, this program is woefully inadequate both in its level of funding and administration. The program has received limited funding only over the opposition of the administration. Funding availability is uncertain each year, but successful projects must have firm financing commitments. Each approved project is a separate grant and actual funding takes several years. Consequently, the program cannot serve as a systematic housing production resource.

Any realistic new federal housing policy initiatives should recognize the lessons of past experience and the constraints of the present:

-Development projects must be of a mixed income nature in order to avoid the management and segregation problems associated with Public Housing and to minimize the required level of federal subsidy;

-Federal/local/private sector joint involvement is needed to assure efficient use of federal funds and a program responsive to diverse local housing needs;

-Rigid federal design and cost formulas, along with detailed federal project review, will produce projects both more costly and more likely to meet neighborhood resistance; rather local governments and developers should be given incentives to maximize the leveraging of federal assistance funds;

-Many state and local governments, through the operation of mortgage revenue bond programs, have developed substantial housing finance and development expertise, thus offering the opportunity for effective local federally assisted housing administration; and

-Even with a new national administration in 1989, federal assistance dollars will continue to be limited due to the federal budget deficit.

The Community Development Department proposes the following outline of a new federal housing policy:

1. Funding would be available for development or financing assistance for rental projects reserving at least 20% of their units for very low income households;

2. Unlike the current HDG program, a majority of the funds would be allocated on a semi-entitlement basis. Unlike the CDBG program, the entitlement threshold in terms of jurisdiction size would be substantially higher, need for additional housing supply would be a critical factor in the allocation process, and recipients would need to demonstrate a proven housing production record;

3. Entitlement as well as discretionary recipients would be required to develop a housing resource plan providing local development (such as density bonus and expedited processing) assistance as well as local financial resource assistance (gap assistance and bond financing for example). Upon acceptance of the plans, individual projects would not require HUD approval;

4. While the level of funding will be constrained by the federal budget deficit, there must be a level, both in the amount of funding and the certainty of funding, to constitute a serious program around which local governments can plan an efficient and responsive program;

5. The volume authority for tax-exempt housing bonds should be doubled from the amount available in 1986, either by an increase in the amount available for "private activity" bonds or through a separate allocation for housing bonds;

6. In addition to an increase in the available volume authority for housing bonds, the authority to issue single family bonds should be extended beyond the 1988 sunset date. Single family mortgage revenue bonds remain the only tool available to the City to assist moderate income home purchase;

7. The federal mortgage agencies-FNMA, FHLMAC, and GNMA-must be given a clear legislative mandate to participate, consistent with responsible real estate underwriting, in local housing programs through the provision of credit enhancement for tax-exempt and taxable bonds issued by local governments.

These proposals are offered as part of a new commitment by the federal government towards housing and urban development. Funding under the program would be in addition to existing programs such as Rental Rehabilitation and Section 8 Existing. A housing block grant wherein existing and possibly new activities are funded from existing resources must be rejected.

Moreover, new federal housing commitments should not permit the abandonement of past commitments, namely the possible dislocations

AUG 26 1987

and absolute low cost housing loss due to the expiration of Housing Assistance Payments Contracts and the expiration of low-income regulatory agreements. Federal responses to this problem must be in addition to the type of new initiatives described in this transmittal.

Finally, a special cooperative effort between the federal government and local governments must be launched to provide shelter assistance for the homeless in the nation's urban areas.

The proposals set forth in this transmittal represent an initial starting point in what is expected to be a two year legislative development process. As a consensus begins to form from various housing groups and local governments the City should seek to actively shape any such emerging housing policy so that it is supportive of its housing needs.

RECOMMENDATIONS

The General Manager of the Community Development Department respectively requests that:

1. Your office process this transmittal to the Grants Committee of the City Council;
2. The Grants and the Intergovernmental Relations Committees, as well as the full City Council consider and adopt these proposals as part of its legislative agenda and actively communicate its position to Sen. Alan Cranston
3. The Mayor concur with the action of the City Council.

Originally Signed By
[illegible]

DOUGLAS S. FORD
General Manager

cc: John Tuite, Administrator, Community Redevelopment Agency
Leila Gonzales-Correa, Executive Director, City Housing Authority

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES

RECEIVED
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[illegible] AUG 25 PM 4:03

MEMORANDUM

DATE: AUGUST 24 1987

TO: WILLIAM McCARLEY, CHIEF LEGISLATIVE ANALYST

FROM: JOHN J. TUITE, ADMINISTRATOR

SUBJECT: COUNCIL FILE 87-1340
FEDERAL HOUSING BILL MOTION

In response to the subject Council motion, and conversations with Joe Lopez of your staff, the Agency hereby transmits suggestions of items which might become part of a new federal housing bill. Consistent with Mr. Lopez's request, our submittal is brief, although explanatory material can be provided if desired.

The Agency's recommendations are similar to input provided when I appeared at the Housing Forum convened by Senator Cranston in early July.

Please contact me or John R. Maguire, Deputy Administrator, for further information.

John J. Tuite

cc: Commissioners
Joe Lopez, CLA's Office

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES

Federal Housing Bill

1. Establish Annual Goals and New Programs - Restore federal commitment to housing and establish annual production goals. In 1968 the benchmark of 600,000 units was established and this annual level remains valid today.

   New housing programs should be structured which address - families (new construction), elderly and those with special needs (handicapped, recently deinstitutionalized, emotionally disturbed, runaways, homeless). Without federal funds those who were to have been protected by the Reagan Administration's "Safety Net" are suffering: very low income, elderly, families living in overcrowded conditions. These people are joining the ranks of the homeless.

   The federal assisted - housing budget was $26 billion in 1981 and in 1987 the appropriations dropped to $7.5 billion, most of which is used to fund existing contracts.

   Without federal subsidies, Agency assistance of about $40,000 per unit is needed to house a low income family of four (at 80% of median) in newly constructed housing.

   The result is at local level - fewer units are assisted for significantly greater dollars. Agency assists projects with an income mix of very low, low, and moderate, as a means of balancing production.

2. Housing Management - New housing Programs should contain special incentives (extra funds) for the management of housing for the "hard to house": deinstitutionalized mental patients, families with poor credit histories, etc. and other hard to house tenants. In conjunction with this, special housing programs for the deinstitutionalized are also needed which would address a major cause of homelessness.

3. Special Risk Funds - FHA should reinstitute its "Special Risk Fund" under which a certain percentage of its loans would be insured with less stringent underwriting standards which would enable shared financing of projects in redevelopment areas or for very low income households. These projects are difficult to finance through conventional means and the locality must frequently bear the entire cost of financing.

4. Non-Profit Developers - All federal housing programs should include provisions for the use of non-profit organizations, community based organizations, or community development corporations as owners or managers of housing. Tax incentives should be administered to encourage non-profits to syndicate projects and for joint-ventures between non-profits and profit motivated developers.

5. Seismic Safety - Federal assistance for seismic rehabilitation should be provided and should include long term, low interest loans with repayment based on the building's ability to absorb the new debt.

   Los Angeles and many other California cities face the dilemma of whether to upgrade the existing housing stock to meet earthquake safety standards or to loose these units due to the owners' inability to absorb the additional debt required to make the improvements. In Los Angeles there are 30,000 seismic deficient units, of which 7,500 are located in the downtown and near downtown area. This housing is a major source of housing for low income persons and the homeless/potentially homeless.

6. Federal Housing Contracts Expirations - In Southern California, there are 30,000 units under federal contracts. Allowing the contracts to expiure will have dire consequences. Contracts should be extended and mortgages refinanced or purchased where feasible.

   Two studies underway by HUD and National Corporation for Housing Partnerships will provide information needed to analyze assisted housing inventory. A field study by National Association of Homebuilders shows that of 581,000 assisted units which will expire within 10 years, 25% have 20 year contracts which will expire in Fy 89.

   CRA recommends that the housing bill attempt to:

   o Establish a pre-payment moratorium to cover all federally subsidized projects.

   o Apply a windfall tax to conversions of assisted housing to market rate and provide tax advantages to owners who sell to buyers who agree to maintain projects as low income housing.

   o Establish a special FHA refinancing program to protect against rent increases and to continue subsidies to cover existing tenants.

   o Prohibit displacement of tenants from projects where contracts expire and/or provide relocation to comparable housing.

   o Allow non-profits or current tenants a right of first refusal to acquire expired units.

HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
515 Columbia Avenue • Los Angeles, Calif. 90017 • Box 17157 Foy Station • 483-6440

COMMISSIONERS
[illegible]

EXECUTIVE DIRECTOR
LEILA GONZALEZ-CORREA

September 8, 1987

Honorable Tom Bradley
Mayor of the City of Los Angeles
City Hall
200 North Spring Street Room 305
Los Angeles, California 90012

Attention: Grace M. Davis, Deputy Mayor

GRANTS TRANSMITTAL: Proposed Federal Housing Policies
(Farrell-Flores Motion)

NARRATIVE

The following report has been prepared to address the Farrell-Flores Motion (C.F. 87-1340) relative to Senator Alan Cranston's invitation to submit proposals for the 1989 Housing Act. The report is transmitted for your review, approval and further processing.

Background

Senator Alan Cranston is holding hearings for the Senate Subcommittee on Housing and Urban Affairs through the nation to work on a major housing bill for 1989 which will set a fresh, new framework for national housing policy in the 1990's.

As expressed by Senator Cranston, the Subcommittee is particularly interested in the following questions:

> What significant changes have recently occurred in the housing market? How have housing problems been affected by changes in federal policy, such as reductions in tax incentives for housing production and cutbacks in federal housing programs?
>
> What has been the impact of increasing costs of home ownership on different segments of the population and on different types of communities? Where and for whom is the problem most severe? What aspects of the problem have not been generally recognized? How could public policy alleviate the problem?
>
> What has been happening to the ability of low income people to afford decent housing? What will be the consequences of losing privately owned low income housing over the next decade as HUD contracts expire and Farmers Home and HUD mortgages are repaid? To what extent can the housing needs of low income people be met with the existing housing stock? What housing needs of low income people require new production?
>
> To what extent does homelessness reveal new problems and an exacerbation of old problems?
>
> What should be the federal role in providing more affordable housing and supporting the home finance system?

We will address in this report those issues directly dealing with low income housing.

Issues

The most significant problems that public housing programs are dealing with, not only in Southern California but throughout the nation, are the following:

1. The severe impact on public housing projects caused by the concentration of the very low income families. This has occurred due to HUD restrictions imposed on PHAs to serve only the very low income families.

2. The lack of motivation of families living in public housing projects to move "in-up-and-out" of the projects, with no incentives for low income families to achieve upward mobility. This is caused by two factors: (a) the elimination of maximum income limits for continued occupancy, and (b) the lack of affordable housing.

3. The seriousness of drug-related activities going on in the projects which affect the security of residents and which is impairing the effectiveness of youth programs oriented towards training and jobs. This problem is almost universal in nature, but the refusal of HUD to fund protective services at the projects makes it almost impossible to achieve the goal of "drug-free public housing."

4. We cannot list the problems affecting public housing without mentioning the enormous need for more low income housing, whether Conventional, Section 8, or Voucher. At present, the demand for housing assistance is at enormous levels - and growing - while resources are more and more limited. The lack of resources is aggravated by the high prototype costs as well as the almost impossible to achieve site selection criteria.

The Housing Authority of the City of Los Angeles proposes:

1. The elimination of HUD income limits which effectively restrains the use of public housing only to the very low income families, thus making it the housing of last resort. This would create better integrated communities confronting less problems by the impactation of extreme poverty and its concomitant concerns.

2. The establishment of maximum income limits for continued occupancy, coupled with a period of residence in the projects limited to the time it would take for the youngest member of the family to graduate from high school. This must, of course, be accompanied by the creation of a realistic program to create affordable housing (between $50 and $70 thousand). During the period of residence, all service agencies would be directed to concentrate resources in the projects to assist the families in moving "up-and-out."

3. Funding for operations of public housing must include as an eligible cost the provision of protective services and the creation of anti-drug programs. Our nation cannot afford to lose our youth to drug abuse. We are fighting a losing battle with drug dealers because we are not able to provide our youth with training and job opportunities. HUD must confront this reality and provide funding sources to combat this very serious problem.

4. We strongly urge that HUD change its rules regarding site selection and prototype costs for public housing. To this end, we recommend that instead of allocation of units, HUD should allocate the funds (dollars) leaving the local PHAs the flexibility to produce "safe, decent and sanitary" housing within the housing quality standards of the community. The PHAs could then use innovative ways to build the units - for example, using air rights, etc. - and more units could be produced with the same limited federal dollars.

The above represent only some of the areas of concern which we have at the Housing Authority. We are in the process of meeting with residents of public housing, low income elderly, and potential recipients of housing assistance to develop more areas where changes need to be made to reactivate the public housing programs and bring them back to the useful purpose that was envisioned 50 years ago when the first public housing bill was enacted.

RECOMMENDATIONS

The Executive Director of the Housing Authority of the City of Los Angeles respectfully requests: (a) further processing of this transmittal to the Grants Committee of the City Council; (b) consideration and adoption of the proposals hereinabove contained by the Grants and the Intergovernmental Relations Committees, and the City Council as the position of these bodies regarding Senator Alan Crans-on's Housing Act for 1969; and (c) that the Mayor concur with the above proposed actions.

Sincerely,

Leila Gonzalez-Correa

Leila Gonzalez-Correa
Executive Director
for

LGC.db

cc: Councilman Robert Farrell
Councilwoman Joan Milke Flores
Douglas S. Ford, General Manager, CDD
John Tuite, Administrator, CRA
Joe Lopez, Legislative Analyst, CLA ✓

CITY OF LOS ANGELES
CALIFORNIA

DOUGLAS G. FORD
GENERAL MANAGER

COMMUNITY DEVELOPMENT
DEPARTMENT
215 W. 6TH STREET
LOS ANGELES 90014
(213) 485-4682

TOM BRADLEY
MAYOR

SEP 17 1987

C.F.: New
C.D.: Citywide
Contact Person & Ext.:
Ralph R. Esparza x53406

Honorable Tom Bradley
Mayor, City of Los Angeles
Room 305, City Hall

Attention: Grace M. Davis, Deputy Mayor

GRANTS TRANSMITTAL: HOUSING POLICY AND NEW INITIATIVES FOR AFFORDABLE HOUSING

NARRATIVE

Transmitted for your review, approval and further processing is this report on the need to develop a new City Housing Policy and to recommend initiatives to increase the number of affordable housing units.

This report has been prepared in response to a request by the Chairman of the Grants, Housing and Community Development Committee for consideration at the special Grants Committee meeting of September 22, 1987.

REPORT FORMAT

This report report consists of four (4) sections

Section 1 - Summary of Major Housing Issues - Problems

Section 2 - Current Housing Policies

Section 3 - CDD Housing Unit Inventory

Section 4 - Factors and recommendations for policies which provide for the most feasible methods for increasing affordable housing in the City

SEP - 7 1987

SECTION 1: SUMMARY OF MAJOR HOUSING ISSUES/ PROBLEMS

The major issues effecting the City's ability to respond to the City's Housing needs and demands can be summarized as follows:

1. Reduction, termination, or suspension of Federal Rental Assistance Programs - In 1980, the City received HUD approval for 2,414 units. In 1986, HUD approved 40 units. The specific allocations during this period were as follows:

Year	No. of Projects	No. of Units
1980	105	2,414
1981	125	955
1982	6	713
1983	4	294
1984	6	105
1985	0	-0-
1986	1	40

In addition, the Community Development Block Grant Program has been dramatically reduced (the City's high of $66.0 million in 1985/86 vs the current level of $56.0 million).

2. Increased demand for affordable rental housing - In 1983 the need was 236,466 households. In 1986, the need was 313,943 households or an increase of 77,477 households (33%).

3. Home ownership opportunities are becoming more difficult due to increases in costs for land, construction and financing.

4. Scheduled loss of Federal Rental Assistance for 22,000 units of Section 8 Contracts or Section 236 and 221(d)(3) prepayments.

5. The financial impact of improving 1,400 Residential Apartments and 300 Residential Hotels which are seismic deficient.

6. The need and demand for Inner-City Housing Development

7. Reluctance of the private investment community to commit sufficient funding, particularly to the Inner-City.

8. With the advent of the Tax Reform Act of 1986, the ability to issue tax-exempt bonds for housing has been restricted. Further, this Act removed incentives for profit motivated developers to invest in affordable housing development. The Act schedules the termination or sunset of Tax Exempt financing for the Single-Family First Time Home Ownership Program.

SEP - 7 1987

SECTION 2 -EXISTING HOUSING POLICIES

In order to recommend new housing policies, it is important to identify current housing policies as implemented by the CDD. The basic policies followed by the CDD include;

1. The adopted Housing Element of the City General Plan.
2. The City and HUD approved Housing Assistance Plan of the year? City's Community Development Block Grant (CDBG) Application.
3. Policies initiated by the City Council through various ordinances such as Density Bonus; Seismic Ordinance and the Dorothy Mae Ordinance.
4. The 15 program 1980-84 Housing Production Program.
5. Program specific policies approved by the City Council as specific housing programs are offered to the City or developed in response to a specific housing need. Examples of such policies would include:
    a. The City Tax-Exempt Bond Program for Affordable Housing.
    b. Rental Rehabilitation and Housing Development Action Grants.
    c. Tax Credit Allocation Procedures.
    d. Rehabilitation loan guidelines for HOME, MORE, Contract Agency, Neighborhood Housing Services (NHS) areas on programs.

a. REHABILITATION HOUSING POLICIES

The CDD Housing Division Rehabilitation Programs, as described under Section 2(a) are operated to provide technical and financial assistance to single family owner occupied households and multifamily residential renter occupied units. The programs are operated in accordance with City Council and Mayor approved guidelines. Such guidelines include loan limits; eligibility criteria; and participation and application procedures. Since the inception of the first Housing Division program in 1978, the HOME Program, the guidelines and procedures have been modified, through City Council and Mayor approval based upon increases in rehabilitation costs, and through the introduction of new program resources (in addition to CDBG Funding, such as Section 312, Rental Rehabilitation, Section 8 Moderate Rehabilitation, Tax-Exempt Bond Financing, and other similar resources). Further program modifications were made based upon the need to achieve optima operating efficiency and effectiveness.

b. NEW CONSTRUCTION HOUSING POLICIES

The Housing Division in 1979 developed it's new construction program in response to (1) anticipated actions by the Federal Government to reduce, terminate or suspend it's primary new construction programs; (2) the GAP in new construction housing between elderly and family housing development; (3) the reduced level of HUD financing commitments for assisted project thereby creating mortgage "GAPs"; and (4) the need to provide incentives for Inner-City Housing Production. As a result of these factors, the Housing Division initiated programs to facilitate new construction through (1) the creation of a Housing Production Program element under the Community Development Block Grant application (the funds of which were used for land write-down or mortgage GAP financing); (2) the creation of a Municipal Finance Section to develop, structure and issue Tax-Exempt Bonds for First Time Home Buyers, for multifamily non-rent subsidized projects and for Section 8 rent subsidy developments and (3) the administrative responsibility for the Density Bonus Program. Criteria, developer requests for proposals, Underwriter and Bond Counsel request for proposals and ultimate selections have been developed by Housing Division staff for which the City Council and Mayor provided final approval.

c. TARGETING POLICIES

REHABILITATION

For single family and multifamily rehabilitation, program areas were initially selected in accordance with federal CDBG regulations. The primary factors for targeting were (1) management capacity; (2) areas which, once assisted would achieve one of two National objectives (a) low income benefit and/or (b) removal of slums and blight; (3) proposed areas which had a majority of its residents defined as low income (earning less than 80% of median income); (4) program areas having housing mixes which were either single family (for HOME Contract Agencies and NHS Programs) or multifamily (HOME PROGRAM); and (5) housing found to be within the Program areas deficient of HUD's Minimum Property Improvement Standards.

NEW CONSTRUCTION

For new construction, the target area policies were established to address the following: (1) Tax Exempt Bond Financing for single-family ownership, the Existing Program, areas were determined in accordance with federal criteria, essentially all census tract within the City having a majority of low income households, and (2) GAP Financing has been available for Tax-Exempt Bond Multifamily Rental Project, located in the City Council approved Priority Area (La Cienega to the west, Wilshire Boulevard to the north, the Eastern City limits to the east and 120th Street to the south).

SECTION 3 - CDD - HOUSING PROGRAMS RESOURCES - CURRENT AND ANTICIPATED

1. Single family rehabilitation and First Time Home ownership opportunities.

   a. Rehabilitation programs - the CDD operates a wide variety of single-family rehabilitation programs to preserve the City's existing single-family housing stock. The programs include: HOME, HELP, and Contract Agency Programs. The results, since the inception of each respective program, as of June 30, 1987, are as follows:

Program	Units
HOME	3,710
MORE	69
HELP	1,000
Contract Agency	676
TOTAL	5,455

   b. Single Family Ownership

First time homebuyers benefit from the City's involvement in financing new homes and condominiums by obtaining below market rates. The City has already financed ownership development, representing 2,697 units, located throughout the City. Over $209.0 million in bonds have been sold under this program. The interest rate under this program ranges from 8.45% to 10.50%. The City of Los Angeles also makes loan funds available for the purchase of existing homes which are located in designated "target areas." Generally, these target areas include portions of Hollywood, Wilshire, Silverlake, Exposition Park, Hyde Park, Watts, South Central and Southeast Los Angeles and San Pedro.

2. Multifamily Rehabilitation and New Construction

   a. Multifamily Rehabilitation - The City offers assistance to owners of multifamily rental properties occupied by low income tenant households. Although the major program operated is the MORE Program, the CDD provides this assistance under the HOME Program, and the Contract Agency Program. The results to date include:

Program	Multifamily Units Rehabilitated
MORE	3,379
HOME	4,940
Contract Agency	986
TOTAL	9,305

b. New Multifamily Rental Development

Non-Subsidized Rental Development

To date, CDD has completed four multifamily bond issues, and eleven special project issues. The issues to date provided for the financing of projects representing in excess of 8,569 units and over $460.0 million in bond financing. Each of the bond financed rental projects is subject to the requirement that at least 20% of the project's units be available and rented at affordable levels. Approximately 1,838 units have been set-aside for lower income households.

Subsidized Rental Housing - New

In 1979, the CDD initiated the Assisted Housing Production Program. The program objective was to encourage the construction of New Section 8 family and large family projects, particularly within the inner city areas. The City has achieved this objective by using both "Gap" financing and/or tax-exempt financing. Under this program we have accomplished the following:

		Household Type		
Program Assistance	Total Units	Elderly	Family	Large Family
1. Mortgage GAP Assistance only	663	365	227	71
2. Tax-exempt Bond Financing only	115		95	20
3. Bond Financing and GAP Assistance	694	329	289	73
	-----	-----	-----	------
TOTAL	1,472	694	611	164

3. SEISMIC REHABILITATION

The Community Development Department has taken the initiative since the adoption of the Seismic Safety Ordinance (passed in February 1981) to help finance residential seismic rehabilitation. During this period the City has utilized a wide variety of financing and funding resources to assist in the correction of such buildings. The City has been involved in three difference forms of assistance: (1) the Community Development Department has provided direct funding assistance through a combination of Federal Community Development Block Grant Funds and Rental Rehabilitation Funds; (2) the use of Federal Tax-Exempt Bond Legislation; and (3) the Community Development Department as a referral agency to various conventional lenders wishing to finance seismic deficient buildings upon referral by the Community Development Department.

Our efforts to date have provided assistance for 46 projects representing 2,072 units, a total rehabilitation value of $25,636,661 and a total Seismic Rehabilitation value of $6,520,814.

4. Density Bonus

On June 1, 1983 the City Council authorized the Community Development Department (CDD) to enter into and execute, on behalf of the City, Housing Rental or Purchase Covenants and Agreements. These covenants are required in those cases where the Planning Department or Planning Commission impose conditions, approved by the City Council, on a development where specific units are to be held, sold, or conveyed only to eligible low and moderate income households.

These conditions occur in cases involving such issues as Density Bonuses, Zone Changes, conditional Use Permits, Tract Maps, Parcel Maps, variances and/or Coastal Permits or Environmental Clearances.

As of August 30, 1987 the CDD has processed 94 contracts for all of the above type of variances representing 3,677 total units, of which 370 units are restricted to low or moderate income households, 436 units for moderate income households, and 144 units for low income households.

Specifically, under the density bonus program we have executed 33 cases, representing 1,685 units of which 211 units were for low and moderate income households; 111 units were for moderate income households and 86 units were for low income households.

SECTION 4: FACTORS EFFECTING HOUSING POLICY DEVELOPMENT

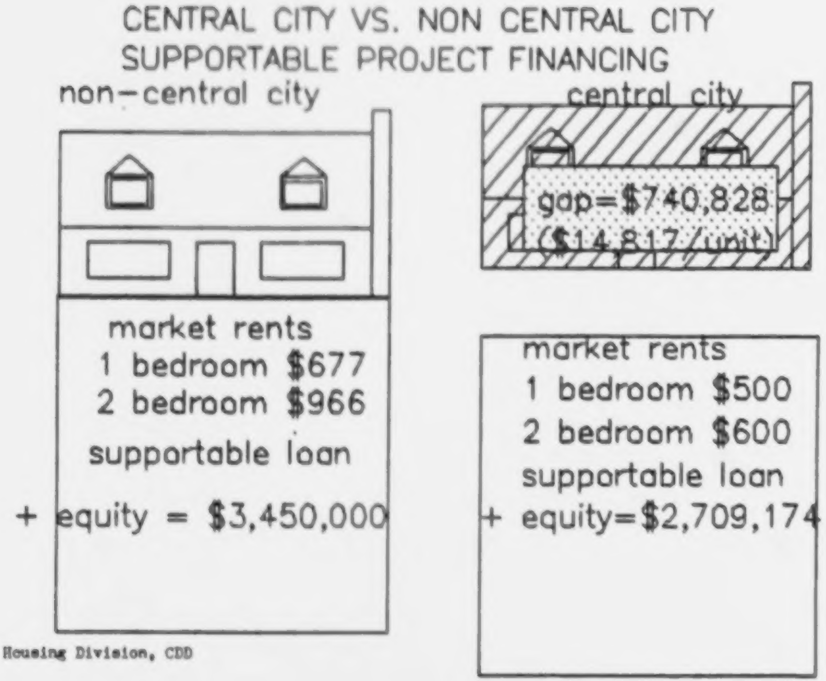
As policies were recommended to and approved by the City Council, for the above referenced programs, we find consistency with respect to the aforementioned policies. Factors which must also be considered in the development of new housing policies should include the following:

1. Development of programs responsive to the diverse housing needs of the City. New Construction for rental units and the opportunity for first time ownership. The preservation of the City's existing housing stock - both single-family and multifamily units.

2. Housing Affordability - to include new ownership at affordable market values and rent levels targeted at affordable levels without federal rent subsidies.

3. Quality Housing - New housing development should not be at the expense of inferior housing quality.

CHART 1
Comparative Analysis of Affordable
Housing City-wide vs. Central City



Source: Housing Division, CDD

4. Homeless Prevention - to include the development of transitional housing and permanent housing.

5. Continuation of InterAgency coordination and cooperation

6. Private/public sector partnerships - the City alone does not have the resources to address it's housing needs. The private investment community must be motivated to invest in the City's housing programs, particularity for Inner-City Development and for seismic deficient buildings.

7. Leveraging of public sector dollars to encourage such investment the City should continue to require private development financing with City CDBG funds & serving to close mortgage gaps, not substitute for Developer equity.

8. Operational efficiency of current programs.

9. Expediting of City sponsored projects - the City should evaluate it's current processing operations for Building Permits and Zoning approvals.

10. Target-area vs. City Wide Assistance - Chart 1 shows a comparative analysis on the need to finance a fifty unit project between a non-central City project and a Central City project.

11. Policies reactive to State and Federal changes/dynamics and the impact to private residential development - both assisted and non-assisted. Such factors that are beyond direct City control include:

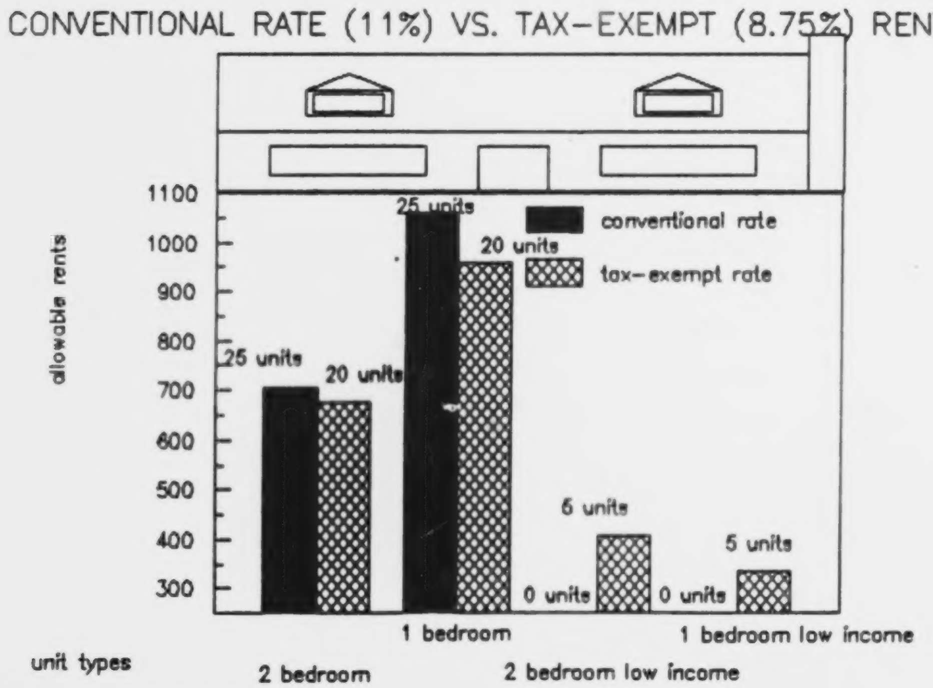
    a. Interest Rates - impacts constructions financing and ownership. Chart 2 shows the rent level differential between conventional interest rates and tax-exempted interest rates. Chart 3 shows a comparative analysis on interest rate impact on ownership opportunities based upon conventional interest rates and tax-exempted interest rates.

    b. Credit markets and taxes - without change, for-profit Developers will defer in their effort to develop low income housing.

    c. Housing markets - the demand for all housing within the City, based upon supply, creates higher market values, and therefore excludes those at or below median income.

12. The impact of market forces on private residential development - both assisted and non-assisted - as a result of the tax changes, rental developments will be cash flow driven, therefore minimizing ability to develop affordable housing.

CHART 2
Comparative Analysis of Interest Rate
Impact on Rent Levels-Conventional vs.
Tax- Exempt rates



Source: Housing Division, CDD

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13. The need for legislative support, advocacy and reform - in response to policy issues which effect budgeting, new program development and/or program authority.

14. Separation of housing roles at City, State and Federal levels.

15. Budgetary, personnel and fiscal constraints -

    (a) City level,
    (b) State level and
    (c) Federal level

16. Basic demand for affordable housing.

17. City building codes, zoning regulations - which unnecessarily prolong or restrict processing can indirect add or increase Developer costs.

18. Land availability, assembly, zoning and/or community resistance.

19. Investment motivation - both for lenders and for developers to invest now in housing development.

SUGGESTED HOUSING POLICIES -

Housing Finance - The City needs to encourage the mortgage lending community to remain committed to housing with an emphasis on special City housing needs such as seismic improvement financing and inner-city investment.

Federal Tax Policy - The City needs to encourage our California delegation to study the need for legislative change to current tax policies, to include:

(a) Expand the volume of mortgage revenue bond financing to help first-time homebuyers and extend the legislative authority beyond the proposed sunset date of 1988.

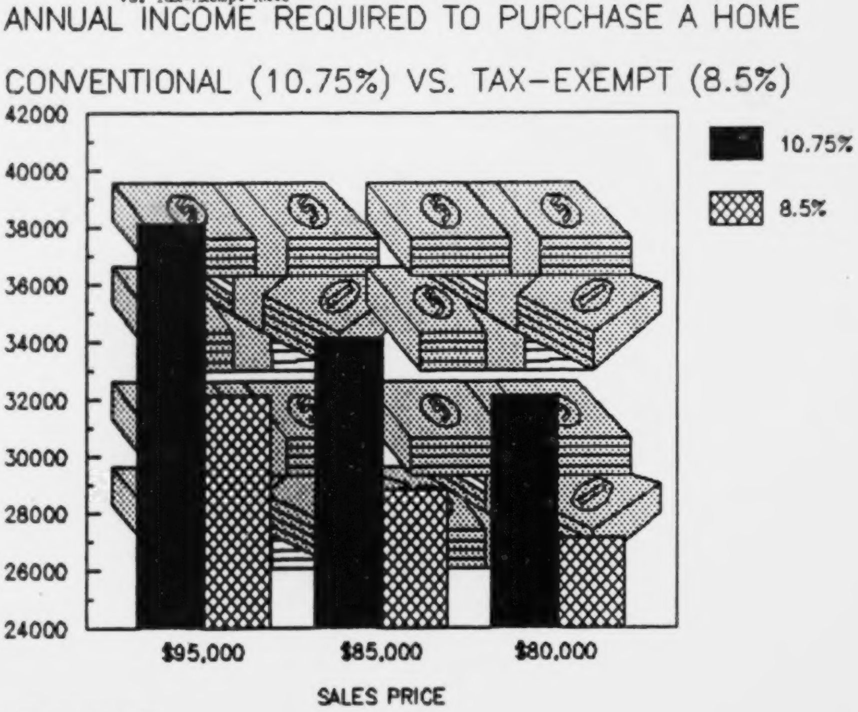
(b) Expand the volume of tax-exempt bond financing for multifamily projects.

(c) Exempt from the volume cap tax-exempt bond financings for seismic deficient buildings.

(d) Reinstate tax incentives to developers to develop affordable housing.

NEW HOUSING PRODUCTION PROGRAM - The City should urge congress and support the efforts of U.S. Senator Alan Cranston to develop programs and appropriations to fund or reinstate housing production programs.

CHART 3
Comparative Analysis of Interest Rate
Impact on Home Ownership- Conventional
vs. Tax-Exempt Rate



Source; Housing Division, CDD

RENTAL ASSISTANCE EXPIRATION - The City could realize a loss of over 22,000 units of current Federally Assisted Housing, during the Period 1989 to 2006. As such, the City should go on record to support actions which:

(a) Impose moratorium on the ability of privately owned rental developments to prepay Section 236 or Section 221(d)(3) mortgages until an impact analysis to existing tenants is identified or mitigated.

(b) Support the efforts of Congress and the State Legislature in their effort to extend Rental Assistance Contracts beyond initial contact period (15 or 20 years).

(c) The City should obtain and assess data on such projects scheduled or otherwise determined eligible for contract expiration or prepayment.

CITY ACTIONS/INITIATIVES

In addition to taking positive actions to initiate the above policies the City should consider or initiate the following:

(a) Study the alternatives for the elimination or reduction to regulatory barriers (such as recent proposals for environmental impact reports for small residential developments) and fees that unnecessarily increase the affordability of housing such as growth moratoria, and excessive zoning restrictions. Or at a minimum, exempt low income housing from sewer, school district or other such fees.

(b) The City should evaluate measures to streamline the zoning and building permit process.

(c) The City should consider the impact/benefit of exaction fees, such as commercial or industrial projects indirectly subsidizing rental projects.

(d) The City should consider the ability of commercial developers who receive zoning concessions to obtain and then transfer density bonus benefits for low or moderate units.

(e) The City should continue to appropriate it's Housing Production funds for gap loans within the City Priority Areas. Further, CDBG or Rental Rehabilitation funds should continue to be a priority for funding Seismic Deficient Buildings.

(f) Continue to reserve tax-exempt bond for target area developers and to require it's selected Bond Underwriters and Bond Counsel to develop innovative and cost saving approaches when even the City in structuring a tax-exempt bond issue.

(g) The City should consider the establishment of a City Municipal Corporation under Tax Code 501(c) (3) to provide flexibility to financing concepts which respond to diverse housing development situations.

(h) The City should give full consideration to a proposal under study by the Rent Stabilization Division to allow owners of Rent Controlled units to "Buy-out" on a one time basis from the Ordinance. The proceeds of such would be available to help finance low income housing.

(i) The City should also consider an aggressive effort to obtain funds generated from the State Franchise Tax Board (FTB) originated as a result of the denial by FTB of Income Tax Benefits for slumlords who do not comply with State criteria for tax deductions. As an example, according to a report by the Rent Stabilization Unit the City of San Francisco during the period 1979-1983, received $341,642. It is estimated that the City could receive as much as $1,400,000. The funds of which would be used for housing for low income households.

(j) The City should act to collect court imposed fines from slumlords either to help and improve the property or other properties needing rehabilitation (with priority for seismic buildings).

(k) The City should provide surplus sites to developers at below market values with the stipulation that low income housing be permanently convenanted.

(l) The City should evaluate the performance and record of those lenders in which the City invests it's funds, with respect to their reinvestment policies within inner-city or minority concentrated areas.

(m) Evaluate the possibility to duplicate the experience of the City of New York which recently helped guarantee a Tax-exempt Bond Financed Project for the Homeless.

(n) The should consider the use of Quimby Fees, as an option to park development, to help finance low income housing. This option would be practical for those already developed City neighborhoods, where new park development would cause the removal of existing housing.

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Private Sector Participation

- a. The City should encourage City based corporations to participate under a shared equity or low income tax credit process.
- b. The City should encourage non-profit housing development corporations to obtain expertise in affordable housing programs, particularly as it relates to authority under 501(c)(3).
- c. Private for-profit developers should be encouraged to respond to City issued Open-ended Request for Proposals.

RECOMMENDATIONS

The General Manager, Community Development Department respectfully recommends the following:

1. That this transmittal be scheduled before the Grants Housing and Community Development Committee and for further processing before the City Council;
2. That subject to the direction given by the Grants Committee, that the CDD be instructed to develop a comprehensive work plan for the implementation of the CDD proposed housing policies and development concepts;
3. That for CDD policy proposals requiring state and federal actions, on an as needed basis, that CDD develop a legislative concepts for submission, review and approval by the intergovernmental relations committee; and
4. That the Mayor Concur with the actions of the City Council.

Original Signed by
Douglas S. Ford

DOUGLAS S. FORD
General Manager

DSF:RRE:bn

REPORT OF CHIEF LEGISLATIVE ANALYST
ON PROPOSED GRANT PROGRAM/PROJECT

ITEM NO.: 6 C.F.: 87-1635 DATE: 9-23-87

TO: Grants, Housing and Community Development Committee

FROM: Chief Legislative Analyst

SUBJECT: Low Income Housing Tax Credit Application Procedures

SUMMARY

The Community Development Department has submitted for your review and consideration procedures and guidelines for the review and processing of applications to the State under the Low Income Housing Tax Credit Program. These procedures and guidelines including criteria for prioritizing projects are noted in the Additional Information section.

CDD also requests approval to receive fees provided by the program relative to application (s) review and that the Planning Department, Department of Building and Safety, and the City Attorney provide assistance to CDD as needed to facilitate the processing of applications.

The tax credits, authorized by the Federal Tax Reform Act of 1986, are available to owners/developers of rental housing developments placed in service between January 1, 1987 and December 31, 1989. For calendar year 1987, $32.9 million in tax credits are available statewide; however, no single jurisdiction may receive more than 1/3 of this allocation.

The purpose of the Low Income Tax Credits Program is to provide an incentive for the construction, acquisition, and rehabilitation of multi-family rental housing units for low income households.

A rental housing development may qualify for a tax credit of up to four percent (4%) and/or up to nine percent (9%) proportionate to the percentage of the project restricted to low income occupancy. The specific tax credit percentage is subject to the type of project and the source(s) of financing for the project. New construction projects which are substantially (70%) financed with tax-exempt bond proceeds qualify for a 4% tax credit, whereas projects financed by conventional loans qualify for a 9% tax credit.

Preliminary review of the applications and comments will be done by CDD. Comments must include local priorities established for the use of tax credits and whether any objections exist to allocating these credits to a particular project. (See Attachment) Final review will be conducted by the Mortgage Bond Allocation Committee (MBAC) established by the governor to administer the tax credit program and to allocate the tax credits.

FEDERAL PROGRAM TARGETING AND RENTAL REQUIREMENTS

The 1986 Tax Reform Act requires that projects which receive tax credits meet and maintain certain requirements, including occupancy requirements similar to developments which receive tax-exempt bond financing. At the time the project is placed in service, the owner must choose between the following two options for units restricted to occupancy by low-income tenants. These units must be restricted for at least 15 years:

1. Restrict at least twenty percent (20%) of the units to households with incomes not exceeding fifty percent (50%) of median income, adjusted for family size; or

2. Restrict at least forty percent (40%) of the units to households with incomes not exceeding sixty percent (60%) of median income, adjusted for family size.

Owner/developer applicants will be charged a fee equal to the greater of $2,000 or four percent (4%) of the total amount of tax credits requested. In addition, applicants must include with their applications a performance deposit equal to four percent (4%) of the amount of tax credits requested.

The State will share the four percent (4%) application fee on a "50-50" basis with the local jurisdictions (City share-2%) that perform the initial review of the tax credit applications.

If the project is allocated tax credits and the housing units are placed in service on or before December 1 of the year in which the tax credits were issued, the performance deposit will be returned in full. If the project is not placed in service according to schedule, the performance deposit will be forfeited and the tax credit allocation will be withdrawn.

CDD recommends that the fees received by the City for the processing of the tax credit applications be deposited into a new "Low Income Housing Tax Credit Fund" and that the proceeds be used to assist any low income rental City housing program subject to City Council approval.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the Community Development Department to review, comment upon, and collect a fee of up to two percent (2%) of

the amount of the requested Low Income Housing Tax Credit for review and processing of applications to the State Mortgage Bond Allocation Committee. These applications are for private parties seeking an allocation from the State for Low Income Housing Tax Credits for rental housing placed in service between January 1, 1987 and December 31, 1989.

2. Approve the proposed procedures and priorities for review of the tax credit applications as outlined in this Report to Council.

3. Instruct the Planning Department, the Department of Building and Safety and the City Attorney to provide assistance, information and documentation to the CDD to facilitate the processing of applications to the State.

4. Authorize the Controller to establish the "Low Income Housing Tax Credit Fund" for deposit of all fee income received by the City in conjunction with the review and processing of applications for Low Income Housing Tax Credits.

5. Instruct the General Manager, CDD, to report semi-annually on the number of applications processed for Low Income Housing Tax Credits.

ADDITIONAL INFORMATION

CDD Low Income Housing Tax Credit Application Procedures and Scoring Criteria

CDD proposes that the following procedures be used by the Housing Division to solicit and review the applications:

1. Advertise the availability of the Tax Credits to inform housing developers of the application procedures. Applications will also be solicited from the Community Redevelopment Agency ("CRA") and from the Housing Authority of the City of Los Angeles ("HACLA").

2. Review application packages for accuracy and completion and whether the project complies with the applicable community plan and zoning designations. For projects receiving financial or other assistance from any City agency, solicit assistance and comments from these agencies in preparing the project review and comments for submission to MBAC.

3. Notify, in writing, the Council Office of the district in which the development would be completed, and request that the Council Office submit comments to CDD within ten (10) days.

4. Prepare written review/prioritization of the project for inclusion with the application to be sent to MBAC and include any comments from the Council Office using the attached Comments Sheet.

5. Submit application to MBAC along with comments within approximately thirty days.

Scoring Criteria

CDD proposes that each project be evaluated by scoring it against the following criteria which includes preference to projects located in the City's housing "Priority Area", projects located in CRA redevelopment areas, and projects owned and operated by the Housing Authority.

The "Priority Area" for housing was established in conjunction with the City's tax-exempt bond financed program. The boundaries of the "Priority Area" are as follows:

On the West : La Cienega Boulevard

On the North: Wilshire Boulevard & Pasadena Freeway

On the South: 120th Street

On the East: The eastern boundary of the City

	CRITERIA	MAXIMUM POINTS AVAILABLE
1.	Location Located in a "Priority Area" for housing or in a redevelopment area,or is owned by the Housing Authority.	3
2.	City-Assisted Project Will receive financial or other assistance from any City agency.	3
3.	Inclusion of Family Units One point may be scored for every 10% of units in the project which have three or or four bedrooms, up to three points.	3
4.	Inclusion of Units Designed For Handicapped persons	3

5. Seismic Rehabilitation/ Retention of Existing Single Room Occupancy Units	3
TOTAL POINTS AVAILABLE	15

Jerry Davila
Analyst

Approved:

Faye Washington
Faye Washington
Assistant Chief Legislative Analyst

CITY OF LOS ANGELES
EVALUATION OF PROJECT APPLICATION
FOR FEDERAL LOW INCOME HOUSING TAXCREDIT

****

Project Location: ____

____________________________________ C.D. ________

Owner/Developer: ____

Type of Project: New Const: _______ Rehab: ______ Acq: _______

Conformity with: Community Plan ___________ and Zoning ___________

Project Priority: Low (0-5 Points): ____
Medium (6-10 Points): ____
High (11-15 Points): ____

CRITERIA AND MAXIMUM POINT AVAILABLE — **POINTS AWARDED**
(A maximum of 3 points may be awarded for each criteria)

1. **Location** ______

The project receives points if it is located in a "Priority Area" for housing or in a redevelopment area, or is owned by HACLA.

2. **City-Assisted Project** ______

The project receives points if it is or will receive financial or other assistance from any City agency.

3. **Inclusion of Family Units** ______

One point may be scored for every 10% of units in the project which have three or four bedrooms, up to three points.

4. **Seismic Rehabilitation/Retention of Existing Single Room Occupancy Units** ______

5. **Inclusion of Units Designed for Handicapped Persons** ______

One point may be scored for every 10% of units in the project which are designed and equipped for handicapped persons.

______

TOTAL POINTS AWARDED

======

Other comments:

COOPERATIVE SERVICES INC

EXPRESS MAIL

October 2, 1987

Mr. Don Campbell
c/o Senator Alan Cranston
112 SHOB
Washington, D.C. 20510

Dear Don:

This is a follow up to my letter of August 14, 1987 describing Cooperative Services' areas of interest vis-a-vis a housing reform bill. I very much appreciate the chance to expand on our ideas and your encouragement of such submissions.

We believe that housing reform legislation should recognize consumer cooperatives such as ours, or "mutual housing associations" as they are also called, as important and effective structures for developing and managing affordable housing for the elderly. The state of Connecticut has recognized the mutual housing association model in legislation enacted this year as a result of efforts by Neighborhood Housing Services (Neighborhood Reinvestment Corporation). The legislation provides that the state may grant or loan financing to mutual housing associations for the development of housing for low and moderate income families, and stipulates conditions under which associations shall operate that must be written into contracts between the state and the association. The elements of the Connecticut Mutual Housing legislation that we believe should be embodied in national legislation are:

1. The purpose of the mutual housing association is the provision of high-quality, long-term housing for low and moderate income families, in which residents:
    - A. participate in the ongoing operation and management of such housing;
    - B. have the right to continue residing in such housing for as long as they comply with the terms of the occupancy agreement; and
    - C. do not possess an equity or ownership interest in such housing, which, upon sale, artificially inflates the cost of housing for future residents.

Cooperative Services, Inc.
25900 Greenfield Road Suite 326
Oak Park, Michigan 48237
(313) 967-4000

2. The governing body or Board of Directors of the Association would have as its majority the residents, including waiting list residents.

3. Any surplus realized at the end of the fiscal year would be used for the following purposes, as determined by the Board of Directors:

   A. to establish reserves;

   B. to reduce rent; and

   C. to promote and produce new affordable housing.

   There will be no return or distribution of earnings to any individual.

As you are aware, we are experiencing a housing crisis in the U.S. today because housing costs have so escalated. Also, for low income people there is no benefit to the tax deduction associated with ownership. The consumer cooperative or the "mutual housing" model treats housing as a service not an investment. Resident control, security and affordability are key factors, not equity. The mutual housing model also provides the benefit of a central organization that owns and operates the network of housing projects. The central association is a source of educational and financial resources and, in our case, management services.

Cooperative Services, Inc. (CSI) is the oldest and largest of such organizations in the U.S. We own 20 cooperative apartment buildings in operation in four states (Michigan, Massachusetts, Maryland and California), which are attractive, well-built and efficiently managed by our competent and enthusiastic resident members. The members consider CSI as a "family of buildings," all working together for the common good. We very strongly believe that the mutual housing association is a superior structure for producing quality and affordable housing which is efficiently managed by resident members. Our 23-year history in developing and managing senior citizen cooperative housing has illustrated the success of the mutual housing approach.

CSI's second area of interest in the development of a reform bill is the Section 202 program. Of our 25 cooperative projects for senior citizens (five of which are in the pre-development phase), 20 are financed through the 202 program. As originally developed, the 202 program was an extremely successful production program for elderly housing in the country. Over the years, however, many administrative rules and regulations have been adopted which have made the program more rigid and less workable. Efforts for housing reform should look very closely at the 202 program to bring it back in line with its original intent and original success. Many new ideas for financing are being discussed; however, the 202 program provides a model with a proven track record. It would be extremely unfortunate if this program, the "flagship" of the government production programs, were not preserved and enlarged.

In a related matter, efforts are being made to add a service component to federally subsidized elderly housing to enable the frail elderly to avoid premature institutionalization. There are economic as well as social benefits to this idea because of the increasing difficulty in financing long-term health care. One approach to packaging and providing services to the frail elderly is the Congregate Housing Services Program, created by Congress in 1978 and being implemented by the Department of Housing and Urban Development. Many states have also developed congregate housing programs.

We believe such programs are needed and we support their development. However, it is important to note that the primary need of a growing, mostly healthy low income elderly population continues to be affordable housing, with perhaps some limited sevices. Congregate care housing and programs should be a separate effort for the frail elderly; all seniors in subsidized housing do not need to become automatic clients of the Department of Health & Human Services. We support the development of specially designed separate congregate care facilities, as is being done in Massachusetts. While it is important to reform federal programs and make them more workable, it is also critical not to overlook what has worked.

For example, CSI using the 202 subsidies and through its participative management system, provides assistance to building residents with health problems on both an informal and formal level. The support our member/residents provide each other ranges from informal assistance to one's neighbor (such as helping with meals or cleaning the apartment) to resident committees structured specifically to identify and resolve problems in carrying out daily living activities. For example, our residents on "Family and Community Resources" committees spend many hours working with family members and community services to provide assistance to their peers as needed.

This volunteer support structure requires no additional federal financing, and does assist seniors to continue to live independently. Reform efforts should recognize and encourage this. On-site professional staff may inhibit resident volunteer contributions. There is a great need for home delivered meals and other community support services as well as separate congregate facilities in order to prevent premature institutionalization. However, subsidies for affordable housing alone allow the elderly to benefit from living together and the natural support it can bring. The benefits are:

A. The services have no cost.

B. Since residents help each other, the care giving is a source of pride for the "provider" and enables the receiver to know he/she may at some point reciprocate--maintaining individual dignity.

The benefits described above are a by-product of the sense of community achieved in our mutual housing model referred to in the start of this letter.

I would be happy to provide additional, and specific information about our approach and the elements of it that we believe have led to its success. We would welcome a visit from you to let our co-ops speak for themselves. Thank you very much for your attention to these ideas.

Sincerely yours,

Martha Sachs
Co-General Manager

ds
MS2487

SUMMARY OF HOUSING/COMMUNITY DEVELOPMENT RECOMMENDATIONS

Community Development Commission
County of Los Angeles

1436 Goodrich Boulevard•Commerce, California 90022•(213) 725-7422

David R. Lund
Executive Director

Commissioners
Michael D. Antonovich
Chairman

Peter F. Schabarum
Kenneth Hahn
Edmund D. Edelman
Deane Dana

HOUSING/COMMUNITY DEVELOPMENT ISSUES

Our suggestions for consideration of policies and programs to be incorporated in new federal housing legislation are based upon the following major concepts:

-- Expand use of the Block Grant approach, such as the Community Development Block Grant, for all HUD housing programs

-- Increase local flexibility

-- Appropriate more money for existing programs, particularly housing assistance programs for low and moderate-income persons

-- Raise the threshold figure for compliance with the Davis-Bacon Act

-- Promulgate fewer regulations and cut red tape

-- Use federal resources to stimulate development in concert with the private sector

-- Restructure the Performance Funding System for the low rent Public Housing Program.

-- Establish new methods of allocating Modernization/Comprehensive Improvement Assistance money, such as incorporating allocated funds into the annual operating budget of the public housing authority.

-- Revise financing mechanism of the voucher program to increase landlord participation

-- Increase eligible uses of CDBG funds. Currently new construction and on-site improvements are eligible activities for nonprofits but not for private developers. As a trade-off, increase targeting to 51-75% low-moderate, depending upon activity.

Given the federal deficit, there are obvious financial constraints which cannot be ignored. However, it is time to reprioritize. Housing is now given a very low priority. The problems relating to the need for low income housing are increasing while the supply of decent and affordable housing stock is declining.

Attached are sheets relating to individual issues. Comments are offered respectfully and in a noncritical vein. Historically we have found officials at the U.S. Department of Housing and Urban Development to be conscientious and dedicated to their mission, which is ours.

Community Development Commission
County of Los Angeles

1436 Goodrich Boulevard • Commerce, California 90022 • (213) 725-7433

David R. Lund
Executive Director

Commissioners
Michael D. Antonovich
Chairman

Peter F. Schabarum
Kenneth Hahn
Edmund D. Edelman
Deane Dana

POSITION PAPER ON THE DAVIS-BACON ACT

Background

The Davis-Bacon Act, which provides that the "prevailing wage" in a geographical region must be paid to workers on federally assisted projects, has been in effect for over 50 years. In that time, there has been no increase in the threshold amount of $2,000. In other words, any project which receives $2,000 or more of federal money must comply with the provisions of the act.

The Community Development Commission (CDC) has found a $2,000 threshold to be an impediment to economic and community development efforts. A threshold figure of up to a $500,000 level would be more realistic. Such an increase in the threshold would affect approximately 70% of all federal contracts, but would include only about 10% of the dollar volume of contracts. Thus, this change would not substantially decrease the benefits of Davis-Bacon coverage in large contracts, but would help a majority of smaller projects which are presently hampered by the regulations.

Our experience proves that Davis-Bacon adds substantially, and unnecessarily, to the costs of most CDC projects. An adjustment for the increase in the cost of living since 1931 is justified and compatible with the spirit of the law. An increase in the threshold would create greater employment opportunity in public sector contracting, as well as greater competitiveness.

Impact on CDC Programs

The requirement for prevailing wages in CDBG funded projects sometimes curtails the benefits from many projects--especially smaller ones--and precludes others from consideration. In labor-intensive activities (e.g. rehabilitation), the impact is greater. Smaller contractors find it difficult to pay this wage. Approximately half of our commercial and single-family rehab projects would be exempted under a $100,000 threshold.

The CDC's Community Business Revitalization (CBR) program is designed to stimulate the County's economic base by providing financial assistance to merchants to make improvements in targeted areas. The majority of our CBR projects consists of improvements totaling less than $100,000. Project managers estimate that Davis-Bacon requirements increase project cost by approximately 15% to 25% on smaller rehab and CBR projects.

Competitiveness in Public Contracting

The development/contracting industry is characterized by a preponderance of smaller contractors--97% of contracting firms employ less than 50% of the labor force according to a 1979 Department of Commerce study. Many are open shops. For them, bidding on government contracts entails a temporary distortion in labor costs (with attendant fairness and morale problems among employees) and increased reporting and compliance costs which are not easily absorbed. The result is that smaller contractors are deterred from bidding, and reduced competition leads to higher costs for all taxpayers.

Employment Opportunities under Davis-Bacon

Since prevailing wage determinations are based on the wage earned by 50% of the workers in a locality, rather than an actual average wage for all workers, and since unions are usually best able to document earnings, union scale tends to be institutionalized as the prevailing wage in urban areas such as Los Angeles County. This effectively results in higher wage structures for government contracting than for comparable private work, with some unfortunate side effects. Since costs are increased, cuts must be made elsewhere. A higher-than-necessary skill level is brought to the job; people of lesser skills tend to be excluded from employment opportunities. Even with a higher labor cost structure, the actual number of jobs created on any given project is reduced.

Contractors have the business acumen to bring appropriately skilled (and priced) labor to bear on productivity decisions. They must still meet standards, specifications and deadlines. It is not necessary for the government to require that contractors change their labor practices to get the job. More significantly, it is ambivalent to subsidize a high-paid class of workers on projects which are intended to benefit lower-income persons, while systematically excluding lower-income people from employment opportunities on those very projects.

DAVIS-ACT

Community Development Commission
County of Los Angeles

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POSITION PAPER ON REAUTHORIZATION ISSUES

The Community Development Commission strongly supports a two-year reauthorization of the following programs to provide stability at the local level, to permit rational budgetary procedures, and to give Congress adequate time to consider housing issues without the "revolving door" year-to-year pressures.

-- Community Development Block Grant

-- Assisted housing programs

-- HODAG program at $100 million annually

-- Rental Rehab program at $220 million annually, together with increased per unit grant amounts including a continuation of exceptions to HUD high cost areas

Note: We strongly recommend that all existing housing programs, including the three mentioned above, be folded into one new Housing Block Grant. If that is not feasible, our recommendation holds that the above should be reauthorized on a two-year basis. If a Housing Block Grant is structured, it should be a two-year reauthorization.

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INCREASED HOUSING PRODUCTION

The Tax Reform Act of 1986 has eliminated or curtailed federal tax incentives for private sector development of low income housing. Only larger developers now are able to construct units without government assistance.

The Act's passage has imposed an 80% reduction of the tax-exempt bonds which states and local governments can issue to finance low and moderate income housing. The Community Development Commission has financed the development of more than 11,000 affordable single family and multifamily units under the County's revenue bond program.

Attached is an article based upon an interview with Ben Bartolotto, research director for the Construction Industry Research Board, which effectively states the status of rental housing in Los Angeles County. This article will appear in a future issue of our Pro Forma, the CDC's quarterly magazine.

Recommendations

-- Increase the FHA loan limit

-- Relax the multifamily bond issue targeting requirements from 50% of median household income to 80%

-- Extend the "sunset" provision, enabling the issuance of single family mortgage revenue bonds

RENTAL HOUSING PRODUCTION PICTURE DARKENS...

An increasingly dismal rental housing production picture is emerging in Los Angeles County, according to construction industry analyst Ben Bartolotto. "I estimate a 27 percent decline in rental housing production for 1987 and a comparable decline in 1988," Bartolotto said.

"We are coming off of a very strong year in 1986," he said. "In fact '84 - '86 were all good years following a three-year housing construction recession." However, the rollercoaster production cycle is once again plummeting downward. "I don't see rental housing production improving before 1991," Bartolotto said.

The decline comes at a time when there is a need for more rental housing. "Los Angeles County has a need for about 28,000 rental units a year," Bartolotto said. "Although we had those few highly productive years in this decade, we will average out at about 21,000 units."

Although the County needs more units, the prospects of their being produced are poor. "The incentives aren't there now," Bartolotto said. Under the Economic Recovery Act of 1981, liberalized depreciation rules, among other incentives, stimulated rental production. The tax reform act of 1986 overturned the '81 act and put a cap on the highly effective tax-exempt revenue bond program.

These previous efforts helped produce affordable housing and were probably more effective than the public housing production program.

Whereas the CDC/County Housing Authority has built 3,200 federally subsidized public housing units, the agency has financed the development of more than 11,000 affordable single family and multifamily housing units under the county's revenue bond program. Twenty percent of the rental units which were produced were offered at below-market rents to lower-income households. However, that income group benefited more than is first apparent, despite the fact that most of the new rental units were offered at market-rate rents. Because people tend to move up into newer, more expensive housing, the vacated units become occupied by lower income households. Now, with fewer units being built, there is less movement.

"The fastest growing segment of our population are those below the median income," Bartolotto said. "Right now a substantial number of households are doubling up. Without adequate rental housing, that condition may become permanent."

Vacancy rates, Bartolotto predicted, will worsen. "The 1990 vacancy rate will be less than 3 percent," he said, comparing it to the 4 percent rate of 1980. "A normal vacancy rate is about 5 percent." A low vacancy rate and decreased housing production will promote higher rents in an area of the country already burdened under staggeringly high rents. Unacceptably high rents could have a negative impact on the overall economic health of the county.

Bartolotto did not see obstacles to production being removed at least in the near future. "I don't see any signs of those previous incentives (revenue bond, depreciation) returning. On the contrary, the State Legislative Analyst Office is reviewing existing accelerated depreciation rules and is very likely to bring them more in line with the recent, restrictive federal depreciation regulations. That would not be going in the right direction, as far as I am concerned."

With a restricted revenue bond program, a moribund public housing production program, and reduced tax incentives in effect, rental housing producers are looking to Washington for relief. There, the decade of the '80s has shown radically diminished support. Since 1981, HUD's housing programs nationwide have been cut from over $33 billion to under $8 billion -- a 75% cut -- and the number of new federally assisted units has dropped from more than 200,000 to about 25,000 annually.

The Need Is There

The long term ramification of such restrictive actions diminished incentives and a continuous loss of low-income housing to private development could be profound. A Massachusetts Institute of Technology study predicted the number of Americans who need low-income housing but cannot find it will grow to nearly 19 million by the year 2003. It is estimated that 3.5 million low-income people currently cannot find affordable housing. The study predicted a 27 percent decrease in available low-income housing and a 44 percent increase in those who will need it in the next 16 years.

Although affordable housing production appears to be foundering on the shoals of federal budget cutting measures, there appears to be a growing groundswell of support for rejuvenating housing assistance programs for low- and moderate-income households. Both houses of Congress have now passed comprehensive housing and community development legislation to extend existing programs and enact reforms. Differences between the Senate and House bills are now being reconciled in conference committee. After approval by both houses of Congress, the bill will then be sent to the President for his consideration.

Homeownership among young Americans has declined about 8 percent since 1978. Meanwhile, 37 percent of all rental households in the nation now use 35 percent or more of their total income for rent--up from 25 percent in 1974. "Unsold single family housing inventory in Los Angeles County is low," Bartolotto said. "First time homebuyers will be forced to wait longer. They will continue to rent and this will put additional pressure on rental stock." The squeeze in one part of the housing production pipeline, therefore, has put a bulge in the other portion to the detriment of the entire housing industry and the people it serves.

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PRESERVATION OF EXISTING LOW-INCOME HOUSING

Existing low-income housing stock subsidized or insured under the Section 8, Section 236, and Section 221 (d)(3) programs must be retained as low-income. The following recommendations address this issue:

-- Encourage current and future owners to forego mortgage prepayments through providing incentives to either rehabilitate and refinance or maintain the mortgage through maturity.

-- Ensure that any lost units are replaced through other federal programs or proposed incentives

-- Revise the Tax Reform Act of 1986 to permit state and local finance agencies to issue tax-exempt bonds, outside the state or home-rule volume cap, for all "preserved" project financing.

-- Permit the permanent attachment of rental rehab certificates or vouchers to low/moderate income projects to enhance the ability of the project to continue to meet the 15-year compliance period to qualify for low income tax credits.

-- Revise the Rental Rehab program to permit an operation similar to the Mod Rehab program. Owners should be permitted to use existing equity to qualify for rental rehab assistance. Certificates and vouchers should be project-based.

-- Require any projects needing rehab financing to extend occupancy restrictions for the mortgage duration.

Public Housing

Relative to the question of preserving the existing stock of public housing, our recommendation again reverts to the concept of a Block Grant. Give the public housing authority the responsibility, along with a known financial commitment, to address the preservation, maintenance efforts. In the most recent request for CIAP funds, only one item was approved for expenditure. The result of this approach, long-term, is to defer most maintenance and create slums.

The Block Grant approach would also address the excessive paperwork that characterizes the CIAP (Comprehensive Improvement Assistance Program). HUD reviews and approves the initial line-item budget for a project, any line-item budget revisions that occur in the course of a project, all architectural and engineering contracts, all requests for proposals. Even when HUD approvals are given expeditiously, this system of reviews adds time and costs to the project.

HOUSING AUTHORITY OF THE COUNTY OF GREENE
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September 8, 1987

Senate Housing Subcommittee
Dirksen Senate Office Building
Room 535
Washington, DC 20510

Senator Dirksen:

The Senate subcommittee on Housing is in preparation for sweeping housing legislation to be introduced next year.

As a PHARA member, I would like to submit to the committee my suggestion. I am a strong advocate of ceiling rent in Public Housing. I have made this known to the Area, Regional and Central Office in Washington D.C. The Greene County Housing Authority operated 290 units under the ceiling rent system for 20 years until Congress abandoned the ceiling rent 2 or 3 years ago.

The 20 years that the authority operated with ceiling rent the authority had a solvent budget and returned approximately $500,000. back to the Federal Government. This may not seem very much but for 290 units I feel it is.

In the past 2 years since ceiling rent is no longer law, we are struggling to maintain a solvent budget in the years 1986 and 1987. I have applied for performance funding for these years but didn't qualify because our reserve was at $220,000. The authority reserve declined to $140,000. The reserve will continue to decline to 40% of or $80,000. before the authority is eligible for performance funding. The authority rental income has been in a declining status since the elimination of the ceiling rent.

I would like to demonstrate how important ceiling rent is to our authority.

First the authority establishes the amount of ceiling rent which is required for solvency. To maintain solvency the authority admits 65% of its tenants in the low and very low category, 25% of tenants in the middle income range and 10% high income. These percentages are all within the established income occupancy limits. The middle income tenants and high income tenants subsidizes the low and very low income tenants. The authority does not need subsidies from the Federal Government. This system has worked for 20 years. We have never received subsidies from the Government. the ceiling system is perfect. We have had a solvent budget every year for 20 years.

A project with all low and very low income tenants will cause a heavy maintenance repair load on our present maintenance personnel and possibly have the hire additional personnel to take care of the additional maintenance problems.

We are now experiencing more maintenance repairs than ever before. There is no question that under the ceiling rent we will bring back solvency and reduce maintenance calls because of project mix. All of the Authorties that had the ceiling rent experience the same problems as our authority did.

Solvency in a project would help reduce the Federal Government budget problems because it would reduce subsidies payment to an authority.

Please give this your serious consideration.

Very truly yours,

Louis J. Demola

Louis J. Demola
Executive Director

A Brief Introduction to Community Land Trusts As A Vehicle for Developing and Preserving Low Cost Homeownership and Rental Housing

by Chuck Collins, Director of Technical Assistance
Institute for Community Economics

The need for decent, affordable housing in the United States is serious and growing. The dimensions of this crisis need not be detailed here, but it is appropriate to note that the housing crisis of the 1980s --with its combination of disinvestment and gentrification, and the confluence of growing needs, declining production, and public budget deficits --presents unique challenges.

To respond effectively to present conditions and trends, a housing program must have three strategic objectives. It must:

- provide decent, affordable housing to those who need it most, with the essential benefits of homeownership where possible;

- insure long term affordability by controlling transfer costs, protecting the gains made today from being lost to the market tomorrow; and

- build and economic base for and by the local community and allow local residents to reinvest the fruits of their labors and benefit from their own community development efforts.

Traditional housing programs do not adequately meet these requirements. New models of community development and property ownership are needed, and the community land trust model is one such model.

A Community Land Trust (CLT) is a democratically structured, community based nonprofit corporation, designed to strike a fair balance between individual and community interests and to meet the strategic requirements for a new approach to land and housing problems. The purpose of the CLT is to acquire land and remove it from the speculative market. The land is made available to individual families, cooperatives, and other organizations through long-term (lifetime) leases, which may be transferred to the leaseholder's heirs if they wish to continue to use the land. All lessees are members of the CLT, and they are represented on its Board.

While leaseholders do not own the land they use they may own their buildings (as individuals, or as members of cooperative associations). The CLT, however, retains a purchase option --should the owners decide to sell --for the amount of the owner's investment of capital and labor, adjusted for appreciation and depreciation. Homeowners are thus guaranteed a fair equity for their investment, and their successors can purchase the homes for a fair price. No sellers benefit from speculative gains and unearned increases in market value, and no buyers are priced out of the market and denied decent housing by such increases (CLTs can also manage rental housing where appropriate).

Introduction to Community Land Trusts, Continued

CLTs combine the best features of private and community ownership. Residents have the essential benefits of homeownership: lifetime security, a fair equity for their investment, and a legacy for their descendants. At the same time, the CLT makes access widely and fairly available and prevents absentee ownership; it enables a community to exercise more effective and representative control over its long-term development; and it builds an economic base for the community through lease fees and appreciated value of CLT lands. A CLT distinguishes between the portion of property value created by individual owners and the portion created by community-wide improvement efforts, public investment, and larger economic forces.

The CLT's ability to reduce a community's dependence on outside financial assistance makes it an especially appropriate vehicle for both private and public investment. While funds applied to traditional home ownership programs are spent on a one-time provision of services, funds directed to CLTs are retained and reinvested within the community, for repeated use with multiple effect.

The CLT is a very flexible model. It can accomodate any form of housing, commercial activity, community gardens and other public purposes. It can work in partnership with other community development organizations, and serve as link between the various social and economic units in the community.

In recent years, spurred by the housing crisis and the need for new models of development that meet both immediate and long term needs, there has been a tremendous increase in the number of CLTs, the scale and pace of development, and the breadth of public and institutional interest and support. New groups are emerging in Syracuse, NY, Durham,NC, St. Louis, MO, and other areas --and the accelerated pace of development seems certain to continue.

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Who is the Institute for Community Economics?

The Institute for Community Economics (ICE) is a private non profit corporation working to address the root causes of the housing crisis and community underdevelopment through an intergrated program of technical assistance to CLTs and other community-based development organizations, community investment, and public education. ICE is the principal provider to technical assistance to community land trusts in the U.S. ICE staff provide on-site consultation and technical assistance to community organizations in more than 50 communities in 29 states each year, and phone and mail assistance to others. Fees for services are based on ability to pay, and no group is turned away for lack of resources.

In 1982, ICE produced The Community Land Trust Handbook (Rodale Press), and later a slideshow entitled "Common Ground: An Introduction to CLTs." In 1982, ICE organized a week-long technical conference on CLT development; in 1984, a conference on legal issues affecting CLTs; and in 1986, a strategy seminar for local CLT leaders. ICE has assembled a task force of 15 attorneys and property law professors, to serve on a voluntary basis exploring legal and public policy issues affecting CLTs and other forms of long-term limited-equity- development. ICE is currently researching and producing the Legal Handbook for Community Land Trusts which will be available in the Spring of 1988.

In 1979, to meet the critical need for capital, ICE established the Revolving Loan Fund (RLF), which receives loans from individual and institutional investors and places loans with community development and service projects. To date, the RLF has received over $5.5 million from more than 200 investors across the country. To date, the RLF has placed 145 loans with projects in 25 states. Approximately 60% of these loans have financed housing projects (emergency shelters, CLTs, cooperatives, nonprofit rental housing); 25% have gone to cooperative businesses; and 15% to service programs as diverse as soup kitchens, a nonprofit helath center, and a cultura; and arts center for a low-income neighborhood.

In 1983, ICE pioneered the Community Loan Fund (CLF) model, and began to assist in the development of regional CLFs. To date, ICE has assisted more than a dozen new funds and guided the formation of the National Association of Community Development Loan Funds, for which ICE now provides staffing and coordination. A book-length manual on CLF development and management will be published in November of 1987.

A Progressive Housing Program for America

July 1987

This Program was drafted over a three-year period by the members of the Institute for Policy Studies' Working Group on Housing, a component of IPS' *Alternative Program for America* project. Richard P. Appelbaum had primary responsibility for putting the Program into written form. Emily Achtenberg, Chester Hartman, Peter Marcuse, and Michael Stone drafted, organized, and edited major portions of the Program. Peter Dreier, Jacqueline Leavitt, Christine Minnehan, and Carole Norris also provided or edited drafts of specific sections. Other Working Group members include John D. Atlas, Arthur Collings, Bob Goodman, Daniel Lindheim, Michael Rawson, Florence Roisman, and Joel Rubenzahl.

A version of this Program for use by community organizers is being prepared and will be available shortly.

The Working Group was funded by grants from the Shalan Foundation, the Sunflower Foundation, and the Seed Fund.

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Section I

Introduction and Analysis

A. Rationale

1. The American Dream?

Housing is more than shelter: it represents home and community as well as a structure. The house that is the "American dream" is not just four walls and a roof; it couples shelter with the promise of security, peace and independence. The purpose of the housing program presented in this document is to make this conception of housing as home and community a reality for all people in America. For most Americans, it is not such a reality today; for some, even minimum adequate shelter is lacking.

The concept of the "American dream" encompasses inconsistent elements. In the Madison Avenue form sold in the media, in the rhetoric of politicians and the images of television, the home has been transformed into an article of consumption that in many ways contradicts the values of home and community. Furthermore, while the "dream" is symbolized by the suburban single-family house typically occupied by a white middle-class family, in fact it excludes those who differ from the standard: the poor and near-poor; blacks, Hispanics, and other minorities; singles; and single-parent households, particularly working women.

It is becoming increasingly apparent that the economic aspects of the "dream" are fundamentally inconsistent with its human meaning. The house or apartment is the largest consumption item in most people's budgets. One major reason for such high costs lies in the profits made at all points in the housing cycle--on land, construction, financing, sale, rental, and management. There are many who share in such profits: developers, builders, lending institutions, real estate firms, landlords, management agents, investors, and speculators. Even homeowners often purchase their homes with the expectation of making a profit upon resale. The cost of housing reflects the highest profit levels attainable, not the cost which best meets our needs for decent, affordable shelter in a supportive community. The house has become a dynamic engine of consumption and profit. Its purpose has become the creation of needs, not their satisfaction. The dream it embodies is designed to be bought and sold, not lived. The profit to be made in its production, financing, ownership, and operation has become an end in itself.

The poor have never been able to afford the "American dream," which in recent years has become unattainable for the working class and large segments of the middle class as well. New single-family housing is beyond the reach of the majority of our population. For most of those who rent--and for homeowners who cannot meet mortgage or property tax payments--security of occupancy is highly uncertain. Rents are skyrocketing, while choice is shrinking. The availability of particular kinds of housing to meet special needs is also declining. For lower-income households in particular, the housing crisis has become acute.

2. An Alternative Approach: Social Provision and Protected Occupancy

The Program outlined here is designed to move towards a true American dream. Housing should provide protection, security, space, beauty, and reinforcement for the special needs of its occupants. It should help bring people together, respecting privacy while fostering the common pursuit of common goals. These are the ultimate ends we have in mind as we offer this Program.

To achieve these ends, we put forward two basic concepts: *social provision* and *protected occupancy*. *Social provision* includes *ownership*, *financing*, *production*, and *managing* housing in ways oriented towards use rather than profit. *Social ownership* includes direct public ownership by government or quasi-public entities; ownership by tenant, community, or other non-profit corporations; collective ownership by resident-controlled corporations or neighborhood councils; non-equity or limited-equity cooperatives;[1] and limited-equity ownership of single-family homes. *Social financing* means provision of direct public grants to social producers and owners for building, rehabilitating, and acquiring housing, free from the distortions caused by tax shelters, free from dependency on the demands of mortgage lenders and the instability of the capital markets, and free from the burden of debt. *Social production* encompasses development and construction of housing by community development corporations, local housing authorities, worker cooperatives, labor unions, and other non-profit development and construction firms; on land held in public ownership or community trust; with materials provided increasingly through cooperatively-owned and non-profit suppliers; and in accordance with plans democratically arrived at. *Social management* means operation of housing, under resident control, for the benefit of the residents and the community as a whole. In all aspects of housing provision--construction, financing, ownership and management--our overriding concerns are the interests of the residents and cost-effective use of housing resources.

Protected occupancy is likewise achieved in a variety of ways. It is a form of tenure that combines the best features of private homeownership (security of occupancy, control over use) with the best features of high-quality rental tenure (efficient management, shared facilities, ease of mobility). Through these alternative forms of housing provision and tenure, both oriented towards use rather than profit, we can achieve the true American dream.

---

[1] Under *limited-equity* forms of ownership, tenant-owners acquire a share in the cooperative, which as the legal owner holds a blanket mortgage for all the units. Typically, the share is equivalent to the down-payment for the unit--perhaps 10-20 percent of its value. When the owner wishes to leave the cooperative, the share is resold (to the cooperative) at the original value, plus an annual appreciation set either by law or common agreement at a low level (in California, state law presently limits the annual appreciation to 10 percent). Cooperative members thus cannot sell their units at market value; they can only sell their share at a controlled rate of appreciation. In *non-equity* cooperatives there is no appreciation of the value of the original share.

3. Housing and Neighborhoods

Although issues concerning neighborhood quality are not directly addressed in the Program, we recognize the importance of neighborhood in the overall planning of cities and towns, and in securing the livability of housing. A major part of the value of housing--both cultural and financial--derives from its immediate social environment. Neighborhoods are a vital part of growing up, raising families, forming friendships, and participating in community life.

While we do not expect that a housing program alone can resolve all the difficulties which presently plague our neighborhoods and cities, we believe that the measures proposed here will significantly enhance the quality of neighborhood life for most Americans. For example, the creation of a substantial stock of affordable housing, in a variety of locations, will increase neighborhood choice. At the same time, the availability of secure and affordable housing will encourage the "pride of place" presently associated primarily with homeownership, helping to stabilize and revitalize deteriorated and dispirited neighborhoods. Improvements in housing design and construction can also help in many ways--reducing crime, fostering cooperation, increasing access for the elderly and disabled, and in general improving the quality of neighborhood life.

4. Housing and Economic/Social Change

Finally, while the Program is limited to changes within the housing system, we recognize the significance of broader economic and social trends and forces in determining the adequacy of our housing and neighborhooods. For example, the fact that such a small and unreliable portion of our society's resources (public and private) is devoted to housing is a major cause of our chronic housing shortage and of high housing costs. The unequal distribution of jobs, income, and wealth--especially with the shift from a manufacturing- to a service-based economy--is a major source of the housing and neighborhood disparities so evident today. And racism and sexism in the society as a whole create special problems of housing discrimination, exclusion and oppression.

While the alternative housing provision and tenure systems we propose will not resolve these larger problems affecting housing, they will ameliorate them in several important respects. For example, a system of direct federal grants for housing will assure a reliable, predictable stream of funds for productive housing investment. As more and more residents are guaranteed affordability and security through provision of social housing with protected occupancy, the consequences of income inequality will be less significant. And the creation of new ownership and tenure options not based on the protection of property values will encourage greater acceptance of inclusionary housing patterns, as enhanced affordability increases neighborhood choice. Ultimately, the efforts we propose to improve the housing system could become part of a broader social movement for control and allocation of our society's resources, to allow the fulfillment of every American's basic needs--not just for housing, but for employment, education, health care, and nourishment as well.

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Our initial priority must be to ameliorate the worst impacts of the present system. But without a vision of where we want to go, we have no standard for choosing among the different roads we may travel to move from where we are. Even though the vision we offer may not be attainable in the immediate future, many of its starting points could be implemented today. Indeed, the initial components of the long-range Program are based on initiatives and experiments already being carried out in various parts of the country, albeit in a necessarily limited way.[2] Building upon these creative examples, the Program offers a strategy that meets today's needs and also will lead to broader changes.

B. The Housing Problem[3]

"Americans today are the best-housed people in history," the President's Commission on Housing assured us (U.S. President's Commission on Housing, 1982, p. xxvii). Indeed, current economic wisdom is that Americans are overhoused and that too many of the nation's resources are devoted to housing, at the expense of productive business investment (Downs, 1980; Sternlieb and Hughes, 1980, pp. 3, 89).

Yet, while most Americans have experienced improvement in the physical quality of their shelter in the post-war period, their housing problems have increased in other ways. Especially over the past decade, it has become more and more difficult to find--and keep--housing that is affordable, well-maintained, secure, and located in a supportive neighborhood of choice. For poor, minority, and female-headed households, the housing problem has reached crisis proportions. And while those who are worst off are disproportionately tenants, the impact of the housing crisis today is increasingly shared by low- and moderate-income homeowners.

A few statistics illustrate the dimensions of the problem:

Availability: Over the past decade, the supply of available housing has decreased relative to need. For homeowners, who constitute approximately two-thirds of all U.S. households, the vacancy rate has remained low and relatively stable at between 1 and 2 percent. For renters, the vacancy rate in 1983 was 5.9 percent, down from 7.1 percent in 1980 (U.S. Bureau of the Census, 1984a: 731).

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[2] Many of these examples are available in the community organizers' version mentioned in the acknowledgements.

[3] Sections A and C are in part adapted and updated from Achtenberg and Marcuse (1983), and from the Editors' Introduction to Bratt, Hartman, and Meyerson (1986).

Available rental vacancies are considerably fewer in the central cities, where the supply of apartments is being depleted through condominium conversion, changes of land use, arson, and abandonment. By the end of the 1970s, one major governmental report characterized rental housing as an "endangered species" (U.S. Comptroller General, 1979).

Even by official government standards, not enough new units are being produced to replace those that have been lost and to accommodate our growing population. The ten-year National Housing Goal of 26 million new and rehabilitated units, established in the Housing Act of 1968, was not achieved; by 1978, only 21.5 million units had been built, including just 2.7 million of the 6 million subsidized units target, a shortfall of 55 percent (Stone, 1980). Annual housing starts numbered barely over 1 million in 1982--the lowest rate in post-war history. Not surprisingly, the government has now officially abandoned the embarrassing task of establishing national housing production goals (U.S. President's Commission on Housing, 1982).

In general, the American housing industry is plagued by extremely erratic performance. Over the past 25 years, total housing starts have ranged from a high of 2.4 million units (1972) to a low of 1.1 million units (1981 and 1982), with year-to-year fluctuations often as high as 300,000-400,000 units. Between 1982 and 1983, the change was 645,000 units. Clearly, such huge swings do not reflect corresponding changes in society's housing needs.

Affordability: The decline in housing affordability over the past decade is the most significant measure of the current housing crisis. For renters, housing costs are increasing almost twice as fast as incomes: between 1970 and 1983, median rent rose 192 percent while median renter incomes rose only 100 percent (U.S. Bureau of the Census, 1984a).

Looked at another way, in 1970, 40 percent of all renter households paid at least 25 percent of their incomes for housing (the old rule-of-thumb for what families could afford), and 25 percent paid at least 35 percent. But by 1983, those proportions had increased to 59 percent and 40 percent respectively. In 1983 (the most recent year for which national housing data are available), more than 10 million renter households paid 35 percent or more of their income for rent; 6.3 million paid 50 percent or more; and 4.7 million paid 60 percent or more, leaving little for other necessities.

One aspect of the government's response to this problem has been to increase the official housing affordability standard. Not long ago, a rent-to-income ratio of 20 percent was considered appropriate. Today, the official criterion of affordability (and the rate charged in federally-subsidized housing) is 30 percent. Apart from its arbitrary nature, this simplistic approach fails to recognize that two families having different income levels and different non-housing budgetary needs--e.g., for food and medical care--can afford to spend quite different amounts for housing, relative to income.

With a more complex income-dependent affordability standard, which takes into account the cost of meeting non-shelter necessities, a typical family of four would have required an income of about $22,000 in 1983 in order to be able to afford as much as 25 percent of it for housing. Using this more realistic sliding scale of affordability, in 1980 43 percent of renters (nearly 12 million families) and 26 percent of homeowners (almost 14 million families) were "shelter poor." Between 1970 and 1980, the number of shelter poor families in the U.S. increased by 33 percent (Stone, 1986).

The government also claims that the statistical decline in rental housing affordability is largely attributable to housing quality improvements, especially with the shift of higher-income renters to homeownership (leaving a disproportionate share of the rental stock to the poor). However, even the cost of a "constant-quality" rental unit has risen faster than renter incomes in the last decade (U.S. President's Commission on Housing, 1982). And, of course, it is small consolation to a household unable to afford an adequate diet or clothing to know that the part of its income being handed over to the landlord is going for higher-quality quarters.

While the disparity between renter and homeowner incomes has increased significantly, homeowners too have experienced growing housing affordability problems. Between 1970 and 1983, the median sales price for existing homes more than tripled, from $23,000 to $70,300 (U.S. Bureau of the Census, 1984c: 729). During the same time, mortgage interest rates on conventionally financed single-family homes rose by over half--from 8.5 percent to 13.4 percent (U.S. Bureau of the Census, 1984c: 505). Based on a conventional 30-year loan, monthly mortgage payments for the median-priced existing home would have *quadrupled* over the thirteen year period--from $140 to $558. It is worth noting that while 60 percent of this increase can be attributed to the increase in sales price, the remaining 40 percent is due to the rise in mortgage interest rates.

By 1983, 3.1 million homeowning households paid 50 percent or more of their income in housing costs. In 1983, over 26 percent of all homeowners devoted at least a quarter of their incomes to housing; among those with incomes under $10,000, nearly 60 percent spent 25 percent or more for housing. (U.S. Bureau of the Census, 1984a).

While the affordability gap for higher-income homeowners was to some extent offset by income tax deductions for mortgage interest and property taxes, on a cash flow basis many homeowners' resources were increasingly strained. As a consequence of these factors, in the early 1980s the postwar trend towards increased homeownership slowed greatly, finally reversing itself in 1983 (U.S. Bureau of the Census, 1984b).

With the rising cost of homeownership today, fewer and fewer renters can afford to buy. In the peak year of high mortgage interest rates--1981--first-time homebuyers represented only 13.5 percent of the sales market, as compared to 36 percent in 1977 (U.S. League of Savings Associations, 1982). One direct consequence of these rising costs is to freeze would-be homeowners into semi-permanent renter status, thereby exacerbating the relative shortage of rental housing.

Overcrowding: A growing number of persons are doubling up to economize on rising housing costs. Nearly 3 million households were reported living in overcrowded conditions (1.01 or more persons per room) in the 1983 *Annual Housing Survey*, with 700,000 in conditions of extreme overcrowding (1.51 or more persons per room). As is to be expected, overcrowding is more common among lower-income renters: among renter households with incomes of $3,000-6,999 a year, nearly 18 percent were overcrowded.

The New York City Housing Authority reports that as many as 50,000 families in the city's public housing projects (nearly a third of all its units) were illegally doubling up, a problem that, according to the Housing Authority chair, is "growing geometrically" (Rule, 1983; Hartman and Robbins, 1986). It is almost a certainty that official overcrowding statistics underreport reality, since respondents understandably are reluctant to report doubling up to census takers and other investigators, for fear of getting into trouble with landlords, housing code officials, and welfare workers.

Quality: Today, neighborhood conditions are the most widespread housing quality problem. In 1983, over 17 million households indicated that neighborhood crime was a problem, and over 8 million households felt that bothersome neighborhood conditions (noise; lack of street repairs; intrusive non-residential activities; odors, smoke and gas; trash, litter and junk; or boarded-up or abandoned buildings) were so severe that they would like to move (U.S. Bureau of the Census, 1985: Table A-3).

But even individual units--despite improvements in the standard measures of crowding, plumbing facilities, and dilapidation--continue to experience persistent problems in maintenance and services. In 1983, over 2 million households reported exposed electrical wiring; 10 million households reported signs of mice or rats; and over 6 million households reported signs of water leakage from their roofs (U.S. Bureau of the Census, 1985: Tables A-1, A-2). The problem of neglected maintenance, followed by housing abandonment, is a growing one in many large cities.

Security of Occupancy: The involuntary displacement of families and individuals from their homes and neighborhoods is an aspect of the housing problem that has received growing national recognition. According to government estimates, 600,000-850,000 households, or 1.7-2.4 million persons, are forced to move each year because of private market activity. Over 40 percent of these moves are attributable to increased housing costs, with sale of the building accounting for another 23 percent (U.S. Department of Housing and Urban Development, 1981).

While tenants are most vulnerable to being forced out of their homes, homeowners are increasingly threatened by mortgage foreclosures and eviction. Nearly one in sixteen home loans are more than thirty days overdue (Jones, 1985), and of course mortgage delinquency often eventuates in foreclosure. Since 1981, the national foreclosure rate has moved up steadily. In many areas, high foreclosure rates are a function of rising monthly payments under graduated payment mortgage arrangements while housing values are not rising and in some cases are falling below the amount still owed to the lender (King, 1985). Regional economic hardship can of course produce widespread mortage foreclosures: whereas in early 1985 the national foreclosure rate was 2.5 per 1,000 mortgages (up from 1.8 in 1981), in Oregon, with its declining timber industry, the rate was 8.7 (King, 1985).

Homelessness--the ultimate outcome of housing insecurity and unavailability--has become a significant phenomenon in most cities; estimates for New York City indicate a population of as many as 50,000 homeless, while the figures for Los Angeles suggest almost 40,000 (U.S. Department of Housing and Urban Development 1984: 14). While HUD estimates a national homeless population of 250,000-350,000 (*ibid*: 19), this figure almost certainly is a considerable underestimate. Other estimates have placed the figure at 2-3 million (*ibid*: 9).[4]

Inequality: While the housing crisis affects a growing proportion of our population, it is consistently worse for some than for others. The poor are always worse off. Eighty-one percent of all households earning less than $10,000 pay 25 percent or more of their incomes for housing, while only 2 percent of those with incomes of $50,000 or more pay this much. The median rent-to-income ratio for renter households earning less than $3,000 was a stratospheric 60+ percent (the *Annual Housing Survey* does not provide more specific figures at this level); for renter households in the $3,000-6,999 income class, the median ratio was 55 percent; and for renter households in the $7,000-9,999 class, the median ratio was 39 percent (U.S. Bureau of the Census, 1984a: Table A-1).

Ten percent of female-headed households live in housing that is officially rated as inadequate, as compared to 7.5 percent of all households (U.S. President's Commission on Housing, 1982). Among homeowners, 63 percent of black and 58 percent of Hispanic households are dissatisfied with neighborhood services, as compared to 49 percent of all households (U.S. Bureau of the Census, 1982a). Low-income, minority, and female-headed households are more likely than others to be displaced (U.S. Department of Housing and Urban Development, 1981).

Oppression: Lastly, patterns of housing location, access, design, and tenure increasingly reinforce and perpetuate the economic and social divisions that exist within our society. Housing, after all, beyond shelter provides social status, access to jobs, education and other services, a framework for the conduct of household work, and a way of structuring economic, social, and political relationships.

At the bottom end of the scale, housing conditions are especially oppressive for the poor. The residents of a run-down or partially abandoned neighborhood must be constantly on the defensive, devoting extraordinary efforts to basic physical self-protection, insulating themselves from omnipresent outside threats. The destructive social and psychological impacts of such conditions far exceed their physical dimensions. The commitments made by many working-class families to homeownership--as the only feasible way of obtaining decent housing in an acceptable environment--can also prove oppressive. Employers have long known that employees who own their own homes are often more vulnerable, and hence less militant than more mobile tenants. And while for many people owning a home has provided economic security in old age—years of mortgage payments having served as a form of savings—for many others the constant burden of mortgage payments is a severe economic hardship. The high costs of mortgage financing often require allocating a high proportion of income to housing. This in turn entails overtime work, accepting jobs at substandard wages, and curtailing other consumption. Wives are often forced to work at outside jobs, while at the same time devoting time and energy to domestic responsibilities.

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[4] The HUD study suffers from significant methodological flaws which render its conclusions doubtful. For a collection of critical analyses and testimony, see U.S. House of Representatives (1984).

Racial segregation in housing, which is severe and getting worse in many areas, limits educational and employment opportunities for minorities even as it forces them to pay more (relative to income) for poorer quality housing and declining services. The spatial patterns of the minority ghetto, involuntarily imposed on its occupants with little possibility of escape, both create and reinforce the systemic oppression under which its victims labor every day.

Housing conditions for women reinforce sexist patterns to which they are subjected in other aspects of their lives. Housing design and locational patterns support the traditional division of labor within the male-dominated family, require extensive unpaid work within the home, and restrict opportunities outside the home, both for gainful employment and for social and community life (Saegert, 1981; Rothblatt *et al.*, 1979). Single women and single-parent households experience even greater constrictions on their freedom of choice. For single women, the pressures towards conformity are reinforced by the limited alternatives available in the housing market. For single women with children, oppressive physical living conditions are often exacerbated by their status as undesirable "problem families." Increasingly, many women find themselves "just a divorce away" from poverty and homelessness.

C. Causes of the Problem[5]

There is a principal underlying cause to these problems, which in our view explains the increasing inability of our society to provide adequate, affordable housing for all segments of the population: *housing—a necessity of life—is treated not as a social good but as a commodity.* It is produced, financed, owned, operated, and sold in ways designed to maximize profits, rather than to provide needed shelter. And government policies affecting housing, which supposedly serve the common good, systematically operate to reinforce the profitability of the housing sector and of the business community as a whole. Such improvement in housing as has occurred historically has come about only when it has served the interests of private capital, or when political and economic pressures from organized groups and movements have forced it to occur.

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[5] For more detailed analysis, see the collection of readings in Hartman (1983a) and Bratt, Hartman, and Meyerson (1986); Gilderbloom and Appelbaum (1987); Stone (1980, 1986); Rybeck (1982); Downs (1983); Sternlieb and Hughes (1980); U.S. Comptroller General (1979); and U.S. President's Commission on Housing (1982).

In the most immediate sense, the supply, cost, quality, location, and use patterns of housing in our society reflect the market activities of the private housing sector, which is itself comprised of multiple interests. These include real estate developers, builders, materials producers, mortgage lenders and other providers of housing credit, investors, speculators, landlords, and homeowners. While each of these "actors" makes money from housing in a different way, they share a common interest in housing as a profitable commodity. (Homeowners, of course, have a conflicting interest in their housing as both shelter and investment, a matter of significance for this analysis, as discussed below.)

For housing consumers, the consequences are manifold. First, the high and rising cost of housing in the marketplace reflects, in part, profits made during the initial production or development stage. Land and construction loan interest are by far the most rapidly rising elements of housing production costs (U.S. President's Commission on Housing, 1982). Further, most materials used in the construction of housing are produced by giant corporations with few incentives for cost control (Schlesinger and Erlich, 1986).

Once a house or apartment building is completed, its cost to the consumer also reflects the gain generally made by each successive owner who trades it for profit in the marketplace (housing is perhaps the only common commodity whose market value increases with age). And since virtually every real estate purchase is financed with borrowed funds, added to that is the cost of mortgage interest, which has risen significantly over the years. For example, mortgage interest rates, which were under 6-7 percent until the mid-1960s, tripled to about 17 percent by the early 1980s, and continued to hover over 10 percent by mid-1987.

Moreover, our mortgage finance system, which permits a small downpayment to leverage control over a substantial investment, encourages speculation--the buying and selling of property for short-term profit--which adds appreciably to housing costs. Not surprisingly, mortgage payments, reflecting both the market price of housing and the interest on the government loan, constitute the single largest element of monthly housing costs today for both homeowners and renters. For owner-occupied single-family homes with mortages, mortgage payments constitute on the average 65 percent of occupancy costs (Hartman and Stone, 1986). Similar national data do not exist for renter-occupied units, but with landlords' often greater reliance on multiple layers of debt financing, the percentage of rent dollars allocated to mortgage repayments is probably of at least the same magnitude. Other significant cost elements are the property tax--a regressive tax on real estate as a form of private wealth[6]--and utilities, with their substantial profit component.[7]

The quest for profits in all phases of housing production limits housing production because the necessary resources are allocated only when it is profitable for developers, land owners, materials producers, and mortgage lenders to do so. For example, at the peak of economic booms when business is expanding, commercial banks traditionally cut back on housing loans in favor of more profitable, short-term lending to government and corporate borrowers. And savings and loans, the source of most housing credit, have less money to lend because their depositors seek more profitable returns elsewhere. Similarly, scarce urban land is available for housing only when housing is its "highest and best" (most profitable) use, and private developers frequently shift from building homes to office towers when it is more profitable to do so. Even basic construction materials are diverted from the housing sector when they can be sold more profitably elsewhere.

The result is an extremely cyclical pattern of housing construction, which has significantly inhibited the productive capacity of the housing industry (U.S. President's Commission on Housing, 1982; Solomon, 1981). This in turn has further increased housing costs. For example, the cost of idle plant and construction equipment during slack times is recaptured in higher prices for those housing units which are built. Construction workers require higher hourly wages to offset those periods when they will be unemployed. Builders face a high degree of risk, which they cover through higher profit margins, a cost passed on to consumers. Estimates of increased production costs resulting from cyclical instability run as high as 15-20 percent (COIN, 1979: 57).

In addition, because housing is adequately maintained only when it yields a profit, real estate owners and lenders "disinvest" from poor or "high-risk" neighborhoods through undermaintenance, tax delinquency, arson, abandonment, and redlining, accompanied by the withdrawal of public services (Marcuse, 1979: 1981). Housing capital and credit are then reinvested in the speculative purchase and refinancing of existing buildings in profitable "upscale" neighborhoods, without adding to the housing stock or

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[6] Local property taxes have increased substantially as local and state governments experience fiscal crises and the federal government continues to cut back traditional aid programs. The median property tax paid by all homeowners was $460 in 1980, rising to $564 in 1983. Since the property tax--in effect, a sales tax on housing services--is, over much of its range, highly regressive, low-income households are hit hardest. In 1983, the median real estate tax bill for the 1.5 million homeowners with incomes under $3,000 was $326, or more than 10 percent of their total incomes (U.S. Bureau of the Census, 1984c).

[7] Utility costs are placing a great burden even on homeowners with no or low mortgage costs. The Consumer Price Index (CPI) for fuel, oil, coal, and bottled gas rose from 110.1 in 1970 to 675.9 in 1981, and has since dropped slightly, to 646.0 by mid-1984. In that same 14-year period, electricity prices rose by 252 points, compared with a 194 point rise in the CPI for all items (U.S. Bureau of the Census, 1984c: 482).

improving its condition. Finally, discriminatory practices persist in the housing market, in part because they benefit certain segments of the housing industry. For example, blockbusting tactics enable real estate speculators to buy cheap and sell dear, while mortgage lenders can convert their old loans to higher-yield investments in both the newly segregated black and resegregated white neighborhoods (U.S. Commission on Civil Rights, 1975).

The activities of the private housing sector are significantly influenced by--and also serve to reinforce--trends in our profit-oriented economy and society as a whole. For example, as noted above, the cyclical nature of production in our profit-dominated economic system shapes the flow of capital and credit to the housing sector and structures opportunities for profit in housing development, finance, and ownership. Thus, while housing is crowded out on the upswing of the business cycle, it has traditionally led the way out of recession as business demand slackens. In turn, this countercyclical pattern of housing activity has played an important role in stabilizing the economy and in restoring conditions for more profitable business growth (Solomon, 1981).

The unequal distribution of income and wealth created by our profit-motivated production system leaves many people with jobs and incomes that are inadequate to meet the rising cost of housing, while others are relatively well-off. The movement of business capital in recent years from manufacturing to the more profitable service sector (and from Frostbelt to Sunbelt) has exacerbated these disparities, through the transformation of both the labor market and the housing market. Thus, in some cities, plants shut down, blue-collar workers lose jobs, real estate owners and lenders disinvest, and the housing market collapses. In other cities, well-paid technicians, managers, and professionals attracted by revitalized service industries compete with low-paid workers for scarce urban housing, creating profitable opportunities for real estate speculation and gentrification. The net result is a loss of affordable housing, while neighborhoods and cities are transformed to meet the changing requirements of profit-oriented production.

Racism and sexism in the society as a whole help to structure housing patterns in ways which serve the interests of capital at the expense of disadvantaged groups. Racial discrimination in employment makes housing less available to and affordable by minorities, while discriminatory housing practices foster the creation of segregated, disenfranchised communities that either become ripe targets for profitable business redevelopment or are abandoned by the public and private sectors. Housing options for female-headed households are similarly restricted by women's inferior employment status. Housing design and development patterns further isolate and tie women to the home and increase profit opportunities, not just for the real estate industry, but also for the producers of a vast array of household consumption goods. Finally, the social and economic inequalities perpetuated by the housing market reinforce stratification within the labor market, which supports the profitability of business in general.

D. The Role of Government[8]

While government policies have led to some improvement in housing, they have not solved the housing problem. Indeed, in some respects they have served to intensify it, especially for low-income and minority groups. Government actions affecting low-income housing have not stemmed from a benevolent desire to assist the ill-housed. Instead, they have operated largely to enhance opportunities for private profit (both within the housing sector and for business interests as a whole), to preserve "social peace" against the (real or perceived) threat of disruption from disaffected social groups, and to stabilize the existing social and economic order (Marcuse, 1986).

Of course, business and government do not always act monolithically with respect to housing. Even within the housing sector, different groups may have conflicting interests: for example, mortgage lenders benefit from higher interest rates, while developers prefer lower ones. Moreover, the requirements of the housing industry may sometimes be incompatible with those of the general business community or of the economy as a whole--for example, when high housing costs are translated into wage demands, or when low interest rates (beneficial to housing) prove to be inflationary. In general, the government acts to mediate or manage these conflicts--as well as those resulting from the political pressures exerted by organized housing consumers--in ways that best support the needs of the system as a whole.

1. Homeownership

These patterns are illustrated by the history of federal efforts to promote homeownership in the post-war period. After World War II, the pent-up need for housing, coupled with war-induced prosperity and the increased productive capacity of the economy, stimulated a huge housing construction boom. With expanded federal mortgage insurance and tax incentives for homeownership, the suburban single-family tract house became the vehicle for this explosive growth, supported by the development of federally-assisted highways and other infrastructure.

While the post-war homeownership boom helped many Americans to improve their living standards, it also provided vast new outlets for profitable investment by real estate developers, mortgage lenders, and other segments of the housing industry. The creation of new demand, not just for housing but for a wide variety of household consumption goods, was profitable for business as a whole. And with long-term mortgages and other forms of household credit, consumer buying power could be expanded without creating new pressures on business for higher wages (Stone, 1986).

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[8] We do not analyze the impact of local government development restrictions on housing costs. While such restrictions are often singled out by realtors, developers, and federal policy-makers as a prime source of high costs and rents, in fact they are relatively insignificant in comparison to the basic factors cited here (see Appelbaum, 1986 for a comprehensive review of studies as well as an analysis of regulation in California; also, see Gilderbloom and Appelbaum, 1987: Ch. 6).

Federal promotion of homeownership also gave working families an economic and social "stake in the system." It reduced their desire for mobility, and as a consequence lowered their bargaining power with employers. Homeownership provided families with the illusion of control, but the reality of burdensome long-term debt. And it channeled their legitimate shelter needs into concerns with investment risk and profitability (*ibid.*). Federal homeownership policies also fostered racial exclusion, reinforced the oppression of women, and increased the housing problems of the poor by eroding the central city tax base.

In recent years, the growing problems of the economy and of the housing industry have significantly altered the functions of homeownership. Unprecedented inflation, fueled in part by a tremendous increase in residential mortgage debt,[9] and the inadequate levels of new housing construction have combined to drive up the cost of existing homes. This in turn has priced many middle-class families out of the homeownership market, while greatly increasing the use of homeownership as an investment vehicle by those in upper-income tax brackets. Today the same tax incentives that fostered the growth of the suburbs are stimulating housing speculation and displacement of the poor from the inner city, as affluent condominium converters bid up the price of scarce housing resources (Goetze, 1981; *Boston Globe*, 1982).

While in many areas buying a home has become a privilege reserved for the relatively affluent, for many others the supposed benefits of homeownership are gradually being undermined. With today's variable-rate mortgages, rising property tax bills, and credit shortages for housing, few moderate-income homeowners can count on stability of cost or liquidity for their investments. And a growing number who live a paycheck or two ahead of the bank risk the loss of their equities--as well as their homes--to foreclosure, as recession and unemployment continue to plague the economy.

2. Public Housing

Public housing, the only federal program which involves the public sector directly in housing development, ownership, and management, has had a mixed track record. In more than 50 years, only 1.2 million public housing units have been created, representing less than 1.5 percent of the nation's housing stock (Bratt, 1986: 342). Yet these units today provide reasonably affordable shelter for some 3.5 million low-income people. Contrary to the conventional wisdom, most public housing nationwide is also well constructed, and some of it (including New York City's exemplary program) is also surprisingly well managed (Bratt, 1986: 345).

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[9] Residential mortgages constitute a significant portion of total debt in the United States. At the end of 1980, residential mortgage debt amounted to nearly $1.1 trillion--an amount which far exceeded corporate debt and was even greater than the debt of the United States government. Furthermore, residential mortgage debt has placed an increasing burden on the overall economy. As of 1984, it was equal to 41.4 percent of Gross National Product, compared with 36.4 percent in 1970, and just 13.5 percent in 1946 (Stone, 1986: Table 3.2). This speculative debt build-up poses a significant risk of mortgage defaults and bank failures in the event of a deep depression, which could threaten the stability of the economy as a whole.

These accomplishments have been achieved despite the lack of an adequate federal commitment to public housing. Together with initial opposition from the private sector, this problem has severely limited the potential of the program and also helps to explain its significant shortcomings and failures.

To begin with, the original purposes of the public housing program had little to do with providing affordable shelter. The earliest government-sponsored projects were built during World War I to aid the U.S. war production effort by easing housing shortages for munitions and defense workers. The U.S. Housing Act of 1937 was primarily a public works program, intended to stimulate the depressed economy and reduce social unrest by providing jobs for temporarily unemployed city workers. After World War II, more public housing was built for the benefit of returning veterans.

Concessions designed to accommodate private homebuilding and real estate interests also limited public housing's potential from the start. In order to avoid competition with the private sector, public housing was austerely designed, often inaccessibly located, and restricted to a limited segment of the population. The original "equivalent elimination formula," which required the demolition of one unsafe dwelling unit for every public housing unit created, assured that the overall housing supply would not increase (which might drive down rents in the private market). The decentralized administrative structure of the program allowed substantial opportunities for local patronage.

In the 1950s, as government slum clearance and highway constrution uprooted the poor from central cities and the upwardly mobile left the projects for the suburbs, public housing was increasingly occupied by low-income households, who in the large cities were predominantly racial minorities. Political pressures generated by the ghetto rebellions and the civil and welfare rights movements of the 1960s led to significant reforms, including liberalized admissions criteria and rent reductions, which increased access to public housing by disadvantaged groups. As a result of these demographic and political changes, public housing now serves primarily as the "housing of last resort" for those left behind by the restructured economy, mainly the elderly and single-parent families on fixed incomes.

Since the mid-1970s, public housing has suffered from chronic underfunding and undermaintenance, often inefficient and bureaucratic management, and other forms of official neglect. Operating subsidies, introduced in 1969 to fill the gap between the cost of running the housing and the reduced rents charged to tenants, have never been adequate and in recent years have been substantially reduced. In the larger cities, a number of older, densely populated, and poorly designed projects are severely troubled, and thousands of units per year are abandoned because no funds are available to rehabilitate them.

At the same time, public housing development and management functions have been increasingly privatized through the "turnkey" program, to respond to the "failure" of the public sector. While these trends have helped to discredit the concept of public ownership of housing in this country, in reality they reflect the declining federal commitment to a public enterprise already hamstrung by concessions to private industry.

3. Other Federally-Subsidized Housing

Since the 1960s, public housing has been eclipsed by a variety of mortgage, rental, and tax shelter subsidy programs intended to stimulate the production of low- and moderate-income rental housing by private developers. These programs, although utilized by non-profit sponsors in some instances, have been designed primarily to maximize profits and minimize risks for private owners and lenders, at the expense of long-term affordability and project viability. As a result, more than one-quarter of the subsidized housing inventory is in various stages of mortgage default, assignment, foreclosure, or resale by HUD, posing substantial risks to existing tenants. Many of the more viable projects in gentrifying markets are approaching the point where their mortgages can be prepaid without restriction, allowing their conversion to market-rate rentals, condominiums, or office buildings, thereby jeopardizing their future use as low- and moderate-income housing (Achtenberg, forthcoming).

In recent years, the federal government's primary low-income housing effort has consisted of providing direct rental subsidies to private landlords and developers on behalf of eligible tenants. Under the Section 8 program, participating private landlords agree to charge qualifying tenants "fair market" rents, which are based on prevailing rent levels, as determined by HUD. The government then makes up the difference between this market rent and the tenant's rent payments, currently set at 30 percent of monthly income. As can be imagined, during times of rapidly rising rents this program is highly inflationary, with the direct subsidy cost for a new unit of Section 8 housing estimated in 1982 at $4,000-$5,500 per year (U.S. Department of Housing and Urban Development, 1982), and nearly twice that amount in high-cost New York City--figures that doubtless are much higher today.

4. Neighborhood Programs

With regard to neighborhood impact, the federal role is well known. Urban renewal enhanced opportunities for profit in the development of prime inner-city real estate while fostering business and institutional expansion. In the process, at least one million lower-income and minority households were uprooted and their communities destroyed (Gans, 1982: 385-6). In the 1960s, with the growing threat of social disorder in the cities, outright "slum clearance" efforts were replaced with more muted attempts at housing rehabilitation and ultimately with the Great Society's neighborhood-oriented Model Cities and Community Action programs.

Then, in the mid-1970s, as the problems of the economy worsened and the protests of the poor seemed to weaken, Community Development Block Grants provided a vehicle through which funds for neighborhood programs could be drastically cut, in exchange for increased local political control over resource allocation.

Currently in many cities, block grants provide little more than a limited form of revenue sharing for traditional capital budget items or other programs whose benefits can be widely dispersed. While some localities have used these funds for creative housing initiatives, the limited amount of the allocation often finds neighborhood groups pitted against one another in a losing battle over diminishing resources.

5. Housing Expenditures, Tax Subsidies, and Tax Reform

The overall pattern of federal housing and neighborhood subsidies in the post-war period has been highly regressive, reinforcing the unequal distribution of income and wealth in our society.

On the one hand, direct federal budget outlays for housing and community development, totalling about $13 billion in 1987, have barely kept up with inflation. When all low-income housing programs are considered together, only some 4.5 million housing units currently receive some form of direct subsidy. Only one in five eligible households currently are served by the various federally-assisted housing programs for low- and moderate-income households (Clay, 1987). Of the 4.5 million subsidized units, 3.4 million are administered by HUD, with the remainder in rural areas administered by the Department of Agriculture's Farmers Home Administration (FmHA). The HUD-administered units include 1.2 million units of public housing, and about 1.3 million households receiving Section 8 payments (Dolbeare, 1983: Table 2.6).

New budget authority for HUD's subsidized housing programs in recent years has fallen, from $30.1 billion in FY 1981, to $10.7 billion in FY 1987 (U.S. Budget, 1987a: S-121). It should be noted that the Reagan Administration's proposed FY 1987 budget originally called for *no* additional budget authority.

Such massive cutbacks in direct housing subsidies notwithstanding, tax subsidies for housing in the form of homeowner and tax deductions have more than doubled since 1979, and by 1987 were approaching $65 billion (U.S. Budget, 1987b: G-43).[10] It is estimated that in recent years upwards of 60 percent of these tax benefits have gone to taxpayers in the top 10 percent of the income range (Dolbeare, 1983: 66).

These subsidies have also contributed substantially to high housing costs, by fueling overconsumption and speculation. For homeowners, the deductibility of mortgage interest and property taxes has encouraged the purchase of more expensive housing than would otherwise be affordable (U.S. Congressional Budget Office, 1981). For investors, the ability to depreciate the purchase price of the structure over relatively short periods has encouraged the repeated resale of property as soon as the bulk of depreciation benefits are exhausted. Especially since the Economic Recovery Tax Act (ERTA) of 1981, federal tax policies actively promoted the speculative purchase and resale of existing rental housing, by allowing the properties to be substantially depreciated over the first five years.

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[10] Tax losses due to such deductions may be reduced somewhat by the 1986 Tax Reform Act, which lowered the top income tax bracket to 28 percent.

Partially in response to the alarming growth of real estate tax expenditures in the post-ERTA era, the Tax Reform Act of 1986 has explicitly attempted to curtail available tax incentives for income-producing real estate investment. In addition to significantly extending depreciation schedules, the new law sharply reduces the value of existing tax shelters for rental housing, by lowering marginal tax rates and severely restricting the ability to offset "passive losses" generated by depreciation allowances.[11] At least in the short run, most developers, builders, owners, and lenders who are heavily involved in rental housing will likely be hard hit by these provisions. As a whole, the rental housing industry can expect to suffer a decline in short-run profitability, relative to past performance and to other sectors of the economy that are less dependent on tax shelter incentives.

Homeowner tax advantages remain largely untouched by tax reform, and in some respects the preferential tax treatment for this sector has actually increased. For example, with the elimination of interest deductions for most types of consumer loans--including credit card financing--home refinancing is now the only source of tax deductible credit available for certains types of consumer purchases.

In the long run, many developers and owners will likely respond to tax reform by raising rents to recoup their lost tax benefits. Some analysts predict by 1991 pressures for average rent increases of 20-24 percent over the rate of inflation (Apgar *et al* 1985: 1). Where such increases cannot be achieved or sustained, disinvestment--potentially leading to foreclosure and/or abandonment--is a more likely outcome, until profitability is restored at lower market values.

Either way, the market will eventually adjust to the elimination of tax shelters by establishing a new basis for economically-oriented housing activity by profit-motivated developers, owners, and investors. These adverse consequences will likely more than offset any personal income savings to tenants resulting from tax reform, especially for low- and moderate-income households.

E. Future Prospects

Today, federal policies affecting housing and neighborhoods are part of an explicit government strategy to bolster corporate profits in a floundering economy. The overall approach has been one of income redistribution directly to business through tax cuts and tax reform, deregulation, and other measures, combined with reduced social spending to offset previous tax cuts and pay for vastly increased military spending.

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[11] These are the provisions in effect as of the Tax Reform Act's initial adoption. It is expected that many of the Act's provisions will be modified as their full effects are known and powerful interest groups seek to reshape tax policy.

In support of this effort, all federal assistance for housing production and even federally-supported housing credit activities have been drastically curtailed or eliminated. Limited demand-side subsidies are replacing existing production-oriented subsidies for assisted housing, assuring that the publicly-aided stock will shrink as units are lost through deterioration, demolition, and private resale. For example, HUD plans to sell or demolish 100,000 public housing units over a five-year period (Bureau of National Affairs, 1983), and is openly encouraging the conversion of privately-owned subsidized projects to market-rate housing. Reduced federal involvement in housing finance will further diminish housing's share of resources in the economy as a whole. And Gramm-Rudman-mandated budget cuts will have further massive effects on other important housing subsidies, such as public housing modernization and operating funds and Community Development Block Grants.

These measures, coupled with the impact of continued high unemployment, portend a worsening of the housing crisis, especially for the poor, but increasingly for moderate- and middle-income households as well. While it is tempting to view the current situation as a regressive departure from the mainstream of post-war housing policy, our analysis suggest that the basic functions served by government activities in the housing sphere have not changed. Rather, the underlying balance of economic, social, and political forces has shifted as the limits of post-war prosperity have been reached.

As long as the expanding economy provided room to increase living standards while simultaneously sustaining business growth, improvement in housing was possible. But as major U.S. corporations are increasingly threatened by foreign competition, Third World resistance to U.S. exploitation, and (until very recently) uncontrolled inflation, business has demanded and gotten a larger share of the economic pie. Housing could be easily targeted for attack--precisely because of the wasteful way it has been produced, financed, and owned in our society.

Some segments of the housing industry will suffer as public and private resources are reallocated to bolster the profitability of more powerful corporate interests. Others will continue to prosper, particularly those developers and investors who can shift their resources into luxury housing or downtown office and commercial construction. But housing consumers--especially lower-income and minority households--are paying the real price, in the form of reduced housing options, less security, and higher costs. Moreover, the fundamental problems of the U.S. economy which are the root of today's housing crisis are likely to continue well beyond the Reagan Administration. What is at stake politically is how the economy (including the housing sector) will be restructured in the long run to respond to these conditions, and in whose interest the restructuring will occur.

Now that the political counter-attack on housing is in full force, there is an opportunity to implement a program which can benefit low-, moderate-, and middle-income tenants and homeowners. The growing elusiveness of homeownership for the vast majority of tenants and the decreasing ability of low- and moderate-income homeowners to benefit from their housing as an investment make tenure distinctions less important. At the same time, increasing neighborhood problems create a basis for common action. Moreover, the traditional housing solutions of subsidies and tax incentives for the rich, combined with federal credit manipulations, seem less and less workable even to those who view them as desirable. Needed is a program that can alter the terms of existing public debate on housing, that challenges the commodity nature of housing and its role in our economic and social system, and that demonstrates how people's legitimate housing needs can be met through an alternative approach.

Section II

The Program

A. Principles for a Just Housing Program

The Program begins with the assumption that *every person is entitled to adequate housing in a decent neighborhood at an affordable price, with secure tenure, and meeting the special housing needs of women, minorities, and others traditionally disadvantaged in the housing market.*

The market economy, through its profit-oriented provision and tenure forms, has failed to provide such housing to those who need it most. We therefore propose to develop an alternative sector of socially-provided, non-market housing with protected occupancy, to meet the needs of the growing numbers of households who are ill-served by the marketplace. Over time, the role of profit in this sector will be eliminated, not only with respect to ownership but also in the production and financing spheres. With increasingly adequate resources devoted to it, this alternative system of housing provision and tenure will become a viable option for millions of Americans.

The Program is founded on the following general principles:[12]

1. *Expand the amount of housing under social ownership.*

By "social ownership" we refer to housing that is operated solely for resident and community benefit, subject to resident control, and cannot be resold for a profit.[13] No one form of social ownership is to be favored over another, so long as the ownership arrangement is designed to further social housing goals, rather than private profits.

Residents of socially-owned housing will pay rent according to true ability to pay, and will have the right to permanent occupancy as long as they comply with reasonable tenure obligations. Residents will also participate increasingly in the day-to-day decisions that affect the operation of their housing, through non-profit management companies, mutual management associations, direct tenant management, or other forms of social management encouraged by the Program.

The Program seeks to create and expand the stock of socially-owned housing in a variety of ways. It establishes a comprehensive regulatory system to facilitate the conversion of private rental housing to social ownership. It provides mechanisms to encourage the voluntary transfer of private homes to the social sector and to promote new forms of non-speculative homeownership. It mandates the conservation, upgrading, and general enhancement of existing public and subsidized units. Finally, it calls for the production of significant amounts of new and substantially rehabilitated units that will be owned by social entities.

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[12] This section is partially adapted from Achtenberg and Marcuse (1983).
[13] For further discussion of social ownership, see section I.A.2 above.

2. *Expand social production and increase social control over the housing production process.*

The Program calls for a substantial increase in the rate of federally-supported housing construction, to meet the needs of newly-formed households, replace lost or unrepairable units, reduce overcrowding, and facilitate adequate mobility and housing choice. All of these units will be produced for social ownership. Additionally, the existing housing stock will be upgraded to increasingly adequate standards of safety, livability, space, and energy-efficiency in conjunction with its conversion to social ownership.

Over time, non-profit and public housing development entities, worker-controlled, non-profit and public construction companies, and non-profit building materials suppliers will play a growing role in the housing production process as their capacity is enhanced through federal funding and technical assistance. As more and more elements of the housing production system are socially owned and controlled, the units created will be increasingly responsive to resident needs and the production process will become more cost-effective.

While we recognize that in the immediate future most aspects of social housing production will continue to be performed by the private sector, the Program calls for a production process that is increasingly subject to social control, including control over location, design, development, construction, and hiring decisions. Social housing produced by the private sector will be required to conform to the standards of the Acts which follow, and to be transferred to a social ownership entity upon completion.

3. *Expand direct public financing of housing production and ownership, thereby reducing the dependence of housing on privately-controlled debt and equity capital.*

Even with social ownership and production, as long as housing remains dependent on private mortgage credit and tax shelter subsidies it will continue to be prohibitively expensive to millions of consumers and to the society as a whole, and will remain in short supply. The Program therefore calls for an alternative system of financing housing production and rehabilitation through direct government spending, in much the same way that military family housing is financed. Direct capital grants will be provided for the development of socially-owned housing, which will be permanently debt-free, with no mortgages or bonds to repay.

As a growing portion of the existing housing stock is converted to social ownership, the mortgage debt on these properties will be retired over time and permanently eliminated. In the short run, public control of private housing finance capital will be increased through a series of measures designed to steer these resources towards more productive, socially-oriented investment.

4. *Control speculative private use and disposition of land.*

Land is a scarce resource, acquiring much of its value by public action. Land has a pervasive influence over community life. Control over it is an indispensable element in planning for society's needs. Its rising cost is a significant deterrent to housing development and sound community planning. Under the Program, the amount of land under social control and ownership is to be significantly expanded and existing public lands are to be preserved, through government and community land-banking and land trusts. Public control over private land will also be achieved through a variety of regulatory, tax, and planning measures.

5. *Increase resident control over housing and neighborhood decisions.*

In order to assure that housing is located, designed, developed, constructed, and managed in a way that is responsive to resident needs, the Program calls for the residents of lower-income and minority neighborhoods to be increasingly involved in all aspects of decision-making that affect their living environments. It is especially necessary to increase such control in those communities whose residents do not have access to wealth and power, and whose ability to manage their own destinies is correspondingly limited.

As more and more housing is produced, owned, and managed through the social sector, resident control over a broad range of housing decisions will become an integral feature of the housing system. The Program also calls for regulatory and other measures to make private housing developers, owners, and managers more accountable to residents and to increase the social benefit of their activities. At the same time, the Program requires that resident decision-making must operate within a basic democratic and nonexclusionary framework, without denying access or opportunity to any group or individual.

6. *Eliminate the discriminatory, exclusionary, and oppressive uses of housing, and affirmatively address the housing needs of special groups.*

The Program calls for an end to the pervasive forms of discrimination and exclusion that presently exist in the housing market, especially with respect to racial minorities, women and handicapped. Additionally, measures will be taken to redress the special problems faced by oppressed groups and to affirmatively address their housing needs. For example, housing resources will be targeted for the revitalization of existing minority communities, while simultaneosly expanding the right of mobility for minority residents by providing increased housing options in other neighborhoods of choice. Resources will also be targeted to develop housing of appropriate size, type, and design to free women from oppressive domestic conditions.

7. *Allocate housing resources on an equitable basis, and provide adequate resources to meet housing needs.*

The Program calls for allocation of housing resources based on need, with funds targeted on a priority basis for the benefit of households and communities that have been least adequately served by the private market. In order to provide decent, affordable housing and viable neighborhoods, the level of resources allocated to housing must be substantially increased. A major shift in public spending priorities--most notably away from military spending--will be necessary to provide sufficient funding to meet the housing objectives of this Program. Revenues must be generated in a progressive way, through elimination of inequitable tax loopholes and adoption of more progressive tax measures. The alternative non-speculative approach to housing production, finance, ownership, and management that we propose will make it possible to utilize these increased resources with much greater cost-effectiveness.

B. Declaration of Residential Entitlement

The Progressive Housing Program for America takes as its point of departure the goal originally established by the National Housing Act of 1949: "A decent home and a suitable living environment for every American family." Building on this commitment, it declares that housing which is decent, safe, sanitary, affordable, compatible with resident needs and under democratic resident control is a universal national entitlement. It establishes that attainment of the National Housing Goal is a priority of the highest order, to which substantial public resources must be devoted. It provides that local, state, and federal governments have a responsiblity to use their powers to meet the housing needs of all segments of the community.

C. Principal Program Components

In order to meet our national housing needs, alternative forms of housing provision and tenure must be implemented for increasing portions of the housing stock. Such housing, which will be established or developed alongside the existing private owner-occupied and rental sectors, will be socially-owned and increasingly socially-produced and financed. Social housing is to be created through a series of mechanisms which:

- actively promote the transfer of existing privately-owned rental housing to the social sector;
- encourage the voluntary conversion of private homes to social ownership, and foster opportunities for homeownership without speculation;
- mandate the conservation, upgrading, and general enhancement of existing public and subsidized units; and
- produce significant amounts of new and substantially rehabilitated housing for social ownership.

The Program requires localities to develop and implement Federally Mandated Local Housing Programs for the creation of affordable, socially-owned housing by utilizing a combination of these strategies, taking into account specific local needs and market conditions. Federal funds are provided for a variety of programs that can be designed at the local level to accomplish these objectives, consistent with federal standards and national housing goals. The Program also calls for a variety of tax and financing measures which will enhance the growth of social sector housing.

1. Preserving Affordable Rental Housing: The National Tenant Protection and Private Rental Housing Conversion Act

The private rental housing stock must be upgraded and kept affordable for the low- and moderate-income households who constitute the vast majority of its residents. Additionally, tenants in privately-owned rental housing must be protected from unreasonable rent increases, inadequate maintenance, and arbitrary evictions. Adequate and responsive management must also be assured.

This Act accomplishes these objectives, in part through establishing standards that limit the arbitrary control presently exerted by private landlords and managers over the terms and conditions of residential tenancy in the private market. In the long run, however, decent, affordable, and secure living conditions for the majority of tenants can be assured only to the extent that privately-owned rental housing is converted to forms of non-speculative social ownership. Accordingly, this Act sets forth a series of mechanisms and procedures to facilitate the phased conversion of a significant portion of the private rental housing stock to various forms of social ownership. The Act further requires[14] localities to utilize these measures in meeting certain Federally Mandated goals for provision of affordable social housing, especially where social housing needs are best achieved through conversion rather than new construction.

The Act therefore has two components:

a. Protecting Tenants and Preserving Affordable Rental Housing

The Act establishes minimum federal standards for protecting tenants and preserving the rental housing stock. These standards, which include a mix of binding and local-option measures, are to be incorporated in the Federally Mandated Local Housing Program through adoption of appropriate ordinances and regulations.[15] Local eligibility for federal block, housing, and urban development grants and similar federal funds will be contingent on adoption of (and demonstrated compliance with) these measures.

(1) Use and Occupancy Protections

Some of the following measures are universally mandated, while others are local-option measures that are mandatory only when it is determined that a *local housing emergency* exists, and optional otherwise. Such a determination will be based on designated housing conditions reflecting quality, overcrowding, and affordability; unemployment rates; and other local conditions which must be specified as part of the local housing program.

Anti-Discrimination: All localities will be required, by local ordinance, to insure residents maximum freedom of choice in the selection of housing. Specifically, it will be unlawful to discriminate against any person in the sale or lease of residential property on the basis of race, national origin, religion, sex, age, source of income, physical disability, marital status, sexual preference, family size, or presence of children.

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[14] The details and mechanisms of how the federal government imposes requirements on states and localities will have to be crafted carefully. The Supreme Court recently has upheld a very broad construction of Congress' powers to attach conditions to receipt of federal funds, and this is the most likely avenue (see *South Dakota v. Elizabeth H. Dole*, U.S. Law Week 6/23/87 (55 LW 4971).

[15] See Section II.C.5 on *Program Implementation* for a detailed discussion of the Federally Mandated Local Housing Programs.

Warranty of Habitability: All localities will be required to assure that existing rental housing complies with *minimum* standards of health, safety, and livability. Over time, these standards will be upgraded to achieve *adequate* levels of residential amenity with regard to energy-efficiency, space utilization, security, and resident services such as child care.

Eviction Controls: All localities will be required to protect tenants from eviction without a "just cause," such as non-payment of rent, willful destruction of property, and gross violation of community standards. In these cases, tenants being evicted must be afforded due process guarantees. Evictions for luxury rehabilitation, condominium conversion, and demolitions will also be prohibited, except where a compelling public purpose is served; in such cases, adequate relocation assistance must be provided. Other exceptions may be established based on local needs, subject to federal approval.

Rent Control: Local regulation of rents will be required whenever it is determined that a local housing emergency exists. Local rent control ordinances will be required that meet minimal federal standards, including: a) allowable rent adjustments limited to reasonable operating cost increases, based on a fixed net operating income formula, and b) retention of controls for all units subject to the ordinance regardless of changes in tenancy until the emergency conditions that triggered the ordinance are determined to be over.

Conversion Controls: Local regulation of conversions to condominiums or non-residential use will also be triggered by the existence of a local housing emergency. Local ordinances will be required to contain a blanket prohibition against conversions, with two exceptions: conversions to social ownership, and conversions approved by at least three-quarters of the existing residents. In both cases, adequate notice provisions, relocation benefits, and other safeguards will be required for tenants being displaced.

Demolition: Where a local housing emergency is determined to exist, localities will be required to prohibit all demolitions of rental housing except those required for a compelling public purpose, and in such cases prior one-for-one replacement of equivalent units and adequate tenant notice and relocation benefits will be required.

(2) Management Standards

The Act establishes minimal federal standards governing management performance, policy, and collective bargaining with tenants' organizations. Localities will be required to enforce these standards.

Performance Standards: Localities will be required to establish performance standards for private rental housing management firms, and to monitor compliance. Such standards will govern compliance with local building codes, treatment of tenants, discriminatory rental practices, and cooperation with tenant organizations.

Collective Bargaining: Localities will be required to establish collective bargaining rights and procedures for democratically organized tenant associations, based on federal minimum standards established by the Act. Private housing owners and managers will be required to bargain with tenants over performance standards and policy, including selection and removal of the management agent.

Management Policy: Management firms will be required to develop project-specific management plans that comply with the policy objectives contained in the locality's housing plan, e.g., with regard to collective bargaining procedures, tenant selection and assignment, leasing and occupancy terms, rent disputes, grievance procedures, and compliance with federal, state, and local fair housing laws.

b. Converting Private Rental Housing to Social Ownership

The tenant protections outlined above will progressively reduce the potential for speculation in the rental housing market. This will make rental housing less attractive as an investment to landlords, creating new opportunities for conversion of the private rental stock to social ownership. Localities will be able to meet their social housing goals through a combination of *conversion* and *new production* programs;[16] localities experiencing population decline will likely favor the former, while rapidly-growing places will prefer the latter.

This Act provides that localities should establish targets, schedules, and procedures for rental housing conversion in accordance with federal standards through their Federally Mandated Local Housing Programs. It establishes general guidelines for buyout price and disposition of rental properties, and sets forth a variety of conversion mechanisms that can be used to achieve each locality's goals. Finally, it provides federal funding to facilitate local buy-out of private rental housing units and their phased conversion to social ownership.

(1) Conversion Mechanisms

Substandard Housing: In conjunction with progressively stringent enforcement of local habitability standards, localities should utilize receivership and condemnation procedures to acquire substandard rental housing for social ownership. This approach might initially be limited to owners who have the means to upgrade their properties but refuse to do so. Owners who cannot afford required repairs could be offered federally-funded rehabilitation grants, in exchange for strict regulation of rents, evictions, and occupancy terms, and the granting to an appropriate social entity an option to buy at a designated future date. This option price would be limited to the market value of the property at the time the grant is made, less the value of the grant.

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[16] New production programs are described below in sub-section II.C.4, the Social Housing Production and Financing Act.

Tax Title Properties: Localities should improve and expedite tax title and foreclosure procedures for the purpose of bringing tax-delinquent rental housing into social ownership. Social owners (including the tenants, if appropriately constituted) would be granted a right to acquire title and pay the back taxes, using federal conversion funds, with the price paid subject to federal guidelines. The social owner would then assume the existing mortgage.

Mortgage Foreclosure: Localities should establish procedures facilitating the acquisition of rental housing that is in the process of mortgage foreclosure. Where the value of the property exceeds the amount of mortgage delinquency, social owners (including the tenants, if appropriately constituted) would have a right to purchase the property--providing the cost did not exceed federal guidelines--using federal conversion funds to pay off the mortgage delinquency and assume the outstanding debt. Where the amount of debt owed exceeds the property value, the foreclosure must proceed with an agreement by the lender to offer a right of first refusal upon resale to a social entity.

Voluntary Sale: Localities should establish a right of first refusal to purchase any rental property that is offered for sale and can be purchased for a price not exceeding federal guidelines. The right to purchase should also be made available to existing tenants, in order to promote opportunities for non-speculative collective resident ownership (see Section II.C.2 below).

Eminent Domain: Localities should utilize eminent domain procedings to acquire rental properties at fair market value for the purpose of preserving decent, affordable housing. Ample legal precedent exists for the use of this technique, most notably in the federal urban renewal program.

(2) Policies Governing Buyout and Disposition of the Rental Housing Stock

In developing their rental housing conversion programs, localities should give priority to properties that are occupied predominantly by low- and moderate-income households. They should also establish acquisition policies regarding private rental housing, in accordance with federal standards. For example, formulas for determining the maximum buyout price that can be paid for different types of units in diverse locations will be subject to federal guidelines that guard against the purchase of excessively costly units. With the implementation of the Program, market values will decline, as the effects of tax sheltering, speculation, and scarcity conditions are reduced and eventually eliminated. Policies must also be developed that provide a legal definition of social ownership, and that spell out procedures for determining the proportion of tenants required for first-option tenant purchases, while offering adequate protection to tenants who choose not to buy into the conversion.

When localities acquire rental property through condemnation, foreclosure, or other proceedings, they will have the option of retaining and managing the properties themselves (for example, through a local housing authority), or transferring them to another social owner. When the latter option is exercised, the transfer will include federally-funded rehabilitation grants, operating subsidies, and technical assistance, as needed. In either case, the property must remain under permanent social ownership, with speculative resale prohibited.

2. Promoting Affordable Homeownership: The National Homeowner Protection Act[17]

The attractions of homeownership are undeniable. Nearly everyone desires the security of tenure and control over one's living space which homeownership offers, along with the possibility of relatively stable housing costs, some equity accumulation, income tax benefits, and a sense of full community membership and social status which homeownership may provide.

Yet conventional homeownership is not without problems, especially for low- and moderate-income people. High acquisition costs and interest rates have made it virtually impossible for many middle-income households to buy their first homes. The risks of mortgage and tax foreclosure undermine the security this tenure form seems to offer. The popular homeowner tax benefits are highly regressive, flowing almost entirely to homeowners with incomes of over $30,000. And the present system encourages homeowners to place the enhancement of property values above the preservation of community, contributing to fear and resentment of those persons--usually of lower socioeconomic status--who are perceived as potentially threatening this objective. Finally, the present system encourages homeowners to ride the wave of speculative increases in property values, reaping profits that, conversely, deprive others in the community of the possibility of homeownership.

The Act seeks to address these problems by offering and progressively implementing an alternative tenure form which facilitates the positive aspects of conventional homeownership and eliminates the negative ones. Toward this end, localities will be required to develop programs that simultaneously protect existing low- and moderate-income homeowners and expand opportunities for affordable homeownership, without speculation, by low- and moderate-income households. By encouraging voluntary transfer of private homes to the social sector in exchange for enhanced affordability, improved maintenance, and security of tenure, a new form of *protected occupancy* will be created for existing homeowners that will also bank a portion of the owner-occupied housing stock for permanent non-speculative use. Where tenants wish to own their units, localities will also be encouraged to facilitate the conversion of rental housing acquired from private landlords to forms of individual and collective non-speculative resident ownership.

Federal funds will be provided to facilitate implementation of local homeowner protection and conversion programs as part of the locality's Federally Mandated Local Housing Program. Over time, as progressive implementation of our overall program reduces the speculative value of conventional homeownership, the economic and social benefits of this alternative tenure form are expected have broad appeal for an increasing number of low- and moderate-income homeowners.

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[17] Portions of this section are excerpted from or based on Stone (1985).

a. Protecting Existing Homeowners and Converting Private Home

The Act will require localities to establish a variety of homeowne protection and conversion programs for which federal funds will be made available.

(1) Foreclosure Protection

Low- and moderate-income homeowners who face the loss of their homes through inability to make tax or mortgage payments will be offered financial assistance, in return for an agreement to transfer title to a local housing agency or other social entity following occupancy by the owner or owner's immediate heirs. In effect, the social owner will pay off the delinquencies and assume and eventually retire the outstanding mortgage debt, provided that the value of the house is greater than the sum of these payments. In this event, the homeowner might also receive a nominal amount of cash as equity compensation when he or she dies or moves out of the unit. If the delinquencies and debts exceed the property's market value, the social owner will offer to pay off the delinquencies and retire the debt up to market value.

In exchange for deeding their homes to a social entity, participating homeowners and their immediate heirs would be entitled to remain in occupancy on a permanent basis, provided their residency obligations were met. They would also be eligible for the universal subsidy to meet monthly operating expenses, determined on the basis of the "ability-to-pay" formula described below (sub-section II.C.3). Owners whose financial circumstances improve (or who change their mind) would have the option of buying back the unit from the social entity within a reasonable stipulated time (say 1-2 years), for a price equal to the latter's position in the property.

(2) Home Improvement Assistance

Low- and moderate-income homeowners faced with major capital repairs that they cannot afford to make will be offered direct rehabilitation grants, in exchange for an agreement to deed their properties to a social owner upon termination of occupancy. Many localities currently provide long-term rehabilitation loans and grants, while allowing the benefits of this public investment to accrue entirely to private individuals. As with the foreclosure protection program, the homeowner and his or her heirs would be entitled to remain in occupancy on a permanent basis, provided that their residency obligations were met. When the unit is vacated, the value of the grant would be deducted from the homeowner's equity compensation, enabling the property to be purchased by the social sector at a below-market price.

(3) Equity Conversion

Elderly and other lower-income homeowners who can't afford their housing will have the option of similarly deeding their homes to a social owner, in exchange for life tenure plus a lifetime annuity. Federal conversion funds would be used to purchase the annuity for the homeowner. This program is similar to "reverse equity" mortgage programs now offered by private lenders, except that the benefit does not accrue to the private sector, and the benefits to the homeowner would be life-long, rather than for a set number of years. The amount of the annuity would reflect the homeowner's equity in the property, as determined by the locality. The homeowner would draw down a fixed amount of cash each month, with the balance of the annuity recoverable if he or she vacates the unit. When the home is transferred to the social owner, the value of the annuity would then be deducted from the purchase price. The cost of any maintenance services and/or additional operating subsidies would also be an offset against the acquisition price.

(4) Conventional Sale

As opportunities for the speculative resale of private homes diminish, localities will be encouraged by the Act to utilize federal conversion funds to purchase any property offered for sale by a low- or moderate-income homeowner, not just those facing foreclosure or in need of monthly cash or rehabilitation assistance. A standing offer could be made to purchase such properties for a reasonable price, in exchange for permanent homeowner security of tenure and affordability.

b. Buyout Policies

As with the rental housing conversion program, localities will be required to establish policies governing the acquisition of private homes, in accordance with federal standards. Buyout formulas will reflect the progressive elimination of speculative forces from the homeownership market. In addition, they will take into account the enhanced affordability, increased security of tenure, and improved living conditions that participating homeowners will enjoy as a result of the voluntary conversion programs. In exchange for these benefits, homeowners may be willing to accept limited equity compensation, e.g., based on the original value (rather than current market value) of their cash investment, adjusted for inflation. This should reduce the cost of transferring owner-occupied homes to the social sector.

c. Expanding Homeownership Opportunities

In conjunction with their Federally Mandated Local Housing Programs, localities will be required to increase opportunities for low- and moderate-income tenants to own their homes, individually or collectively, on a protected and non-speculative basis. Federal funds will be provided for expansion of resident ownership on the following basis:

(1) Owner-Occupied Homes

Owner-occupied homes acquired by the locality or another social entity through the variety of mechanisms described above, that are eventually vacated by their owners, will transferred on a priority basis to new low- and moderate-income purchasers for non-speculative resident ownership. The new residents will be able to purchase their unit at a negligible price, with restricted resale provisions allowing for limited-equity appreciation. Rehabilitation grants and operating subsidies will be provided as needed to enhance viability and affordability (see II.C.4).

(2) Rental Housing

Tenants living in private rental housing that has been acquired by the social sector will have a right to purchase their units individually or collectively (as appropriate), on the same terms described above. This right will be extended to tenants living in privately-owned rental housing that is offered for sale (see C.1 above). In addition to rehabilitation grants and operating assistance, equity grants will be available to facilitate tenant buyout of privately-owned units, with resale restrictions to limit future equity appreciation. Localities will also be required to provide funds for technical assistance in order to assist tenants in the conversion process.

3. Protecting Government-Assisted Housing: The Subsidized Housing Preservation Act

The existing stock of federally-subsidized housing includes public housing as well as private and non-profit housing constructed with federal subsidies. This inventory of some 3.4 million units, which represents a multibillion dollar capital investment backed by the federal government, is a national resource which, once lost, would be far more costly to replace. Currently, many tenants in subsidized housing are forced to pay considerably more than they can afford, live in substandard units, are subject to arbitrary management practices, and have limited security of tenure. Further, a large and increasing number of units are in danger of being lost from the subsidized inventory through demolition, private resale, and conversion to market-rate housing (especially as their bonds or subsidy contracts expire or their mortgages become ripe for prepayment).

To address these problems, the Act seeks to improve the affordability and livability of the subsidized housing stock, assure security of tenure, and increase resident control for existing and future low- and moderate-income tenants. At the same time, the Act provides mechanisms to assure the permanent retention of existing subsidized units, enhance existing public and non-profit ownership, and facilitate conversion of privately-owned subsidized units to forms of non-speculative social ownership.

a. Protecting Tenants and Improving Existing Subsidized Housing

Existing subsidized units will be made increasingly affordable and livable, with enhanced security of tenure and resident control for low- and moderate-income residents, through the following mechanisms:

(1) Affordability

Public Housing: Rents charged to tenants in public housing will be adjusted to more accurately reflect each household's ability to pay. Unlike the arbitrary 30 percent rent/income ratio that is currently utilized, the new subsidy formula will recognize that what a family can afford to pay for housing will vary with the extent of its essential non-shelter expenditures (e.g., for food, clothing, and medical care) as well as with the aggregate amount of its disposable income. Allowable deductions for basic non-shelter expenditures will initially be estimated at $1,200 per dependent plus extraordinary medical expenses and childcare, moving towards a formula that reflects family budget needs at increasing levels of adequacy.[18] The level of subsidy will eventually be based on progressive implementation of a variable affordability standard based on household size and essential non-shelter expenditures. Operating subsidies will be adjusted to make up the difference between the new tenant rent shares and the cost of operating the housing.

Other Federally-Subsidized Housing: Rents in federally-assisted projects owned by qualified *non-profit* sponsors, which are generally fixed by unit size, will also be converted to the income-based formula described above. Non-profit projects with defaulted mortgages held by the government will receive a permanent mortgage writedown plus operating subsidies as needed, thereby providing a level of affordability equivalent to public housing. *Other privately-owned subsidized projects* will be eligible for rent adjustments, operating subsidies, and mortgage writedowns only if they agree to convert to social ownership (see below).

(2) Livability

Local housing codes and federal regulatory provisions governing the habitability of public and other subsidized housing will be strictly enforced to bring substandard units into compliance. The existing minimal standards will be upgraded over time, and the owners of public and other subsidized housing will be required to renovate their projects to achieve adequate levels of residential amenity with regard to unit layout, apartment configuration, site and building design, operating efficiency, and resident security. Facilities and programs for residential services such as day care and elder care will also be required, as appropriate. Direct federal grants (similar to the current public housing modernization and flexible subsidy programs), along with the ongoing operating subsidies, will be provided to public and non-profit owners and to other private owners who agree to convert to social ownership within a specified time frame. Private owners who fail to comply with maintenance, repair, and rehabilitation obligations will face regulatory default and foreclosure (see below).

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[18] Under the initial formula, a four-person family with an income of $20,000 and no unusual childcare or medical expenses would pay approximately 23% of income in rent, while a similar family with half that income would pay only 16 percent. See subsection II.C.4 below for further discussion.

(3) Security of Tenure

Lease and grievance protections for tenants in subsidized housing will be strengthened to enhance their rights. Grounds for eviction, which presently are more limited than for private housing tenants, will be further restricted to voluntary non-payment, willful destruction of property, and gross violation of community standards. Where it is believed such violations have occurred, residents will be protected by due process, under procedures secured by federal statute. Eviction will not be permitted because of any temporary inability to pay rent that results from involuntary loss of income.

(4) Resident Control

The rights of subsidized housing tenants to participate in management decisions are presently limited to a few areas, such as modernization and capital improvements planning, development of lease and grievance procedures, and (in non-public subsidized housing) rent increases. The Act will require meaningful tenant participation through collective bargaining in all areas of management policy, including the terms and conditions of tenancy, physical and financial management, and the delivery of housing services. The hiring and firing of management will also be subject to resident control through collective bargaining. Funding will be provided to local tenant councils to facilitate their collective bargaining role.

(5) Management

Management plans for public and other subsidized housing will be required to conform to the policy requirements set forth in the locality's Federally Mandated Local Housing Program, which will reflect minimum federal standards. Managers of subsidized housing will also be required to meet local licensing and certification requirements. The Act will provide funds to encourage the development of alternative forms of management for social housing, including community-based management corporations, mutual management associations, and tenant self-management. Joint venture arrangements between private management companies and residents or community-based housing sponsors will also be facilitated. The Act will require owners of subsidized housing to contract with non-profit social management entities on a priority preference basis wherever possible.[19]

b. Preserving Subsidized Housing for Lower-Income Families and Expanding Social Ownership

Retention of existing subsidized housing as a permanent resource for lower-income families will be accomplished through a number of mechanisms that will encourage the conversion of such housing to social forms of ownership:

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[19] For a more detailed discussion, see National Housing Law Project (1981).

(1) Use Restrictions

Admission to public and other subsidized housing will be restricted to low- and moderate-income households (or until such time as the size of the social housing sector is adequate to accommodate families with less pressing housing needs). Existing tenants who become over-income will be permitted to stay in their units and pay a higher rent, determined on the basis of the ability-to-pay formula.

(2) Removal of Units

Removal of units from the subsidized housing inventory through demolition, conversion to non-housing use, or conversion to market-rate housing will be prohibited, except that physical removal of units from the housing stock may be permitted when necessary for a compelling public purpose. In such cases, prior one-for-one replacement with equivalent housing and adequate relocation benefits will be required.

When a unit temporarily added to the social housing stock through a subsidy certificate (such as Section 8) is lost because the owner fails to renew the lease or subsidy contract, the owner similarly will be required to provide adequate relocation benefits. The tenant holding the certificate will be offered an equivalent unit in the social sector on a priority basis.

(3) Conversion to Private Ownership

Conversion of existing public and other non-profit subsidized units to private ownership will be prohibited. Ownership transfer to or within the social sector (e.g., from public to non-profit or cooperative ownership) will be permitted so long as the current residents are not adversely impacted.

(4) Conversion from Privately-Owned Subsidized Housing to Social Ownership

Conversion of the privately-owned subsidized housing stock will be facilitated through a combination of subsidy incentives and regulatory enforcement:

Subsidy Incentives: The various types of government assistance (mortgage writedowns, rehabilitation grants, and operating subsidies) that will automatically be provided to non-profit owners of assisted housing will also be made available to private owners in good standing who agree to deed their properties to existing tenants or to another social owner within a specified time period. The maximum buyout price for these properties will be limited by federal standards governing compensation to private owners.

Regulatory Enforcement: To facilitate this program, debt collection and regulatory requirements for subsidized non-public housing will be strictly enforced. Private owners who default on their mortgages or who fail to comply with standards for property maintenance, management services, and tenant involvement will face foreclosure, unless they agree to deed their properties to a social entity. Foreclosed properties will be resold by HUD to their tenants or to another social owner.

Tenant Ownership: Assisted housing tenants will have a right of refusal to purchase their projects from existing private owners whenever those projects may be offered for sale, subject to federal standards governing maximum buyout prices. Tenants will have the same right with respect to housing acquired by the government through foreclosure. The purchase right will be transferred to another social entity if not exercised by existing tenants. Direct grants for rehabilitation and technical assistance, as well as equity grants and necessary operating subsidies, will be provided to facilitate acquisition of subsidized projects by tenants and other social entities, in exchange for permanent resale restrictions.

4. Producing and Maintaining Affordable Housing: The Social Housing Production and Financing Act

This Act sets national goals and provides federal assistance for the production and rehabilitation of affordable housing that will be exclusively owned by the social sector and financed by direct government grants. It also provides the funding for converting existing privately-owned units to social ownership.

The Act stipulates that the process by which new and rehabilitated housing is developed will be subject to public and community control, with production increasingly steered towards non-profit and public developers. It further provides that production of new social housing will be financed exclusively by means of direct federal capital grants. These grants will be supplemented by a system of universal operating subsidies to bridge the gap between what tenants in the social sector can afford to pay and the ongoing cost of operating the housing. These funds will also be used to facilitate the acquisition, upgrading, and operation of existing homes and rental units converted from private to social ownership.

The social housing production and financing system established by the Act will create a reliable, predictable stream of funding for the production and maintenance of permanently affordable, resident-controlled housing. It will be considerably more cost-effective than the present system of direct and indirect capital subsidies--which primarily benefit wealthy investors--and rental subsidies, which underwrite speculative profits in the private market.

The Act will require localities to utilize the following programs in meeting their Federally Mandated Local Housing Programs, especially where there is a shortage of existing affordable units. These new units will be added to the growing stream of acquisitions from the private housing stock to establish a vital, substantial social housing sector.

a. Producing Housing for Social Ownership

Localities will comply with the following requirements in order to facilitate new construction and rehabilitation for social ownership:

(1) Planning for Social Production

In conjunction with their Federally Mandated Local Housing Programs, localities will be required to formulate goals and plans for the production and rehabilitation of housing for social ownership. The goals will be based on a comprehensive needs assessment, taking into account the quality and affordability of the existing stock and its potential for conversion to social ownership as well as the housing needs of existing and future residents (including the special needs of oppressed groups least well-served by the private market). Each locality will be obligated to provide its fair share of affordable, socially-owned housing, through whatever combination of conversion and production is appropriate to the local situation. Production and rehabilitation goals will be reassessed periodically, taking into account actual performance.

(2) Social Control of Land

Localities will be required to increase the amount of land under social ownership for future production of social housing. Land-use plans and zoning will be required to facilitate inclusionary housing development, along with tax measures to discourage speculation. Federal funds will be provided to encourage public and other forms of community land-banking of sites for social housing development. Public and community land that is so held will be permanently retained in the social sector.

(3) Social Control Over Housing Development

While most aspects of housing production under the Act will continue to be performed by the private sector, the housing development process will be increasingly subject to public and community control. Development proposals will be solicited by the local planning or housing authority, based on detailed program, design, and construction specifications. Design and construction requirements will reflect increasing standards of residential amenity established by the Act, e.g., with respect to site and building configuration, apartment size and layout, provision of community facilities, and building materials. Plans for the provision of management and resident services will also be evaluated on the basis of applicable requirements. Local residents will be significantly involved in development planning and in monitoring project implementation. Developers will be required to comply with Federally Mandated affirmative hiring and job-training standards.

(4) Social Production

In the long run, the Act will encourage an increasing portion of social housing production to be carried out by public and non-profit developers. Federal funds will be targeted to social developers on a priority basis, along with technical assistance to help increase their development capacity. All federally-assisted developers of social housing will be required to give priority to public, non-profit, or cooperatively-owned materials suppliers, construction companies, and management firms. Technical assistance funds will be provided to such groups to increase their skills and capacity.

b. Financing Housing for Social Ownership

Two principal types of federal funding will be available to localities to promote the production, rehabilitation, conversion, and use of housing for social ownership:

(1) Capital Grants

Localities will be required to utilize federal funds to provide direct capital grants for the development and conversion of housing for social ownership. The grants will cover all capital costs, including site and building acquisition, construction and rehabilitation, and technical assistance. Funding will be limited to social sector housing, or to private owners who agree to deed their property to the social sector under other provisions of this Program. This financing method will significantly reduce the occupancy cost of the unit by removing the substantial capital cost component, particularly the interest costs of financing, as well as ordinary operating and resale profits.

The impediments to direct capital financing are largely ideological and political rather than economic. Ample precedent exists for direct capital grant financing of housing in our society, including a substantial portion of the 450,000 units of family housing built by the armed forces for military personnel and their families. Construction, modernization, and maintenance of these units has been funded largely through direct Congressional appropriations to the Defense Department budget. Another example is FmHAs Section 514/516 program, which has been successful in producing low-cost rural housing. More recently, federal Housing Development Grants (HODAG's) and Rental Rehabilitation Grants have been utilized to write down the cost of mixed-income housing. Of course, since these limited programs (now being phased out) were not restricted to socially-owned housing, they also served to promote the inefficiencies of the marketplace.

(2) Operating Subsidies

Localities will also be required to utilize federal funds to provide operating subsidies on behalf of households in the social sector who cannot afford the full cost of housing management and operations. Operating subsidies will also be made available to private homeowners and tenants whose properties are in transition to social ownership (see Sections C.1-3 above). As previously discussed, the level of subsidy will reflect progressive implementation of a variable affordability standard based on the income that households of different composition and size have available for housing after meeting their essential non-shelter needs. Allowable deductions for basic non-shelter expenditures will initially be estimated at $1,200 per dependent, plus extraordinary medical expenses and child care. Over time, the subsidy will be tied to a formula that in fact reflects family budget needs at increasing levels of adequacy.

The system of universal operating subsidies established by the Act will significantly enhance affordability while increasing the attractiveness of the social sector. Operating subsidies targeted to housing that is owned and increasingly financed and produced by the social sector will also be considerably more cost-effective than the existing market-oriented subsidy approach.

5. The National Housing Program Implementation Act: Federally Mandated Local Housing Programs

Most of the measures discussed in previous sections of this Program are implemented at the local level. The role of the federal government is twofold: first, to establish general guidelines and minimal requirements which assure that the housing needs of low- and moderate-income people will be met; and second, to provide the financial and technical resources for localities to meet those needs. In other words, administration of the various program elements is to be as decentralized as possible. This will simultaneously avoid federal bureaucratization and maximize resident participation and control.

Local compliance with the federal housing law is a threshold requirement for receiving federal funds. Yet the law will operate through existing state and local planning or housing departments, utilizing the existing police powers through which state and local governments are able to regulate the private sector, or under state enabling acts (where local powers are restricted). As a consequence, each locality will exercise a great deal of control over the housing plan's design and implementation, although the overall plan parameters are established and monitored federally.

The principal provisions of this Act establish that:

- o It is a state and local *duty* to evaluate, plan for, and adopt a program that responds to the needs of *all* households, including a regional fair share of lower-income and minority families;
- o Federal funds for housing, highway and sewer construction, economic development, Urban Development Action Grants (UDAGs), Community Development Block Grants (CDBGs), and other federal programs which directly and indirectly impact housing are restricted to states and localities that are affirmatively satisfying their housing responsibilities;
- o Local governments shall adopt complying local housing plans, utilizing *all* their powers and available resources to carry out the programs in those plans;
- o States shall adopt statutes which incorporate the provisions set forth below, designating an agency (presumably an existing one with housing or planning responsibilities) with *primary enforcement responsibilities* for ensuring that localities comply with the Act; and,
- o HUD shall be the *secondary enforcement body*, with authority to certify the adequacy of state statutes and state compliance, and with additional authority to block or delay grants from federal agencies to non-complying states.

The specific provisions of the Act are set forth below.

a. Legislative Findings and Intent

The Act declares that it is the intent of Congress to:

o Assure that states recognize their responsibilities in helping to meet national housing needs.

o Assure that states implement housing plans which further the attainment of national housing goals.

o Recognize that each locality is best capable of determining specific actions required of it, provided that local determinations of appropriate actions are compatible with national housing goals and state and regional housing needs.

o Establish that it is the responsibility of localities to develop and implement a housing plan which represents a maximum effort to meet the housing needs of its low- and moderate-income and minority residents.

b. Federal Role

The Act establishes a federal responsibility to:

o Certify that the state planning law satisfies the intent and requirements of this Act. HUD shall be designated the secondary enforcement body (the state housing authority shall have primary enforcement responsibilities) with responsibility for the above certification as well as establishing state compliance through examining a sample of local housing plans.

o Fund the various provisions of this Act at an adequate level.

o Enact legislation allowing HUD to (1) withhold federal funds from non-complying states or localities (i.e., states in which localities containing at least 50 percent of the state population are in non-compliance); and (2) bypass such states if necessary, allocating funds directly to localities with adequate housing plans located within states that fail to enact or implement an adequate state housing plan law.

c. State Role

The Act establishes minimum state responsibilities to:

- Adopt a state statute in compliance with the overall provisions of this Act, with which localities must comply, and enabling legislation if necessary.
- Designate a state agency to carry out the various duties of the state statute, in particular monitoring and reviewing local adoption of an adequate housing plan, and local implementation of the housing programs set forth in the plan.
- Provide for primary enforcement responsibilities.
- Pass through federal funds only to localities which are in compliance.
- Establish a state, county, or regional housing authority to carry out housing activities in localities which are too small, inexperienced, or otherwise unable or unwilling to carry out the plans themselves. If a locality refuses to enact or comply with an adequate plan, local non-profits could receive funds directly from the state housing authority, for purposes of undertaking appropriate housing and infrastructure activities.
- Provide that if a court, the state, or HUD finds a housing plan inadequate, instead of halting development altogether, social housing permits, social housing conversion programs, and related infrastructure would be approved in order to further the housing goals of this program.
- Empower regional entities such as Councils of Governments (COGs) to determine each locality's fair share of regional housing needs, in recognition of the fact that housing markets transcend local boundaries. The state housing authority is responsible for approving the local fair share estimates, as part of the state housing program.

d. Local Role

The locality's housing plan must make adequate provision for the existing and projected needs of all economic and racial segments of the community, and provide for adequate sites for new construction. The Act requires that each local government not only assess its own needs and adopt broad goals and policies consistent with those needs, but also include in its housing plan an action plan for meeting those needs. The local housing plan must provide for the production and rehabilitation of socially-owned housing, conversion from private to social ownership, and the regulation of private rental housing. Once an adequate plan is adopted, the locality is obligated to make a maximum effort to implement it.

The local housing plan is required to contain the following:

Needs Assessment: Each plan must contain an assessment of the housing needs of all income levels of the community, as well as the locality's share of regional housing needs. This assessment is to contain an analysis of housing characteristics, including:

- Overcrowding, deterioration, and undermaintenance;
- An inventory of land suitable for residential development;
- An inventory of privately-owned units suitable for conversion to social ownership;
- An analysis of governmental constraints imposed on the maintenance, improvement, or development of housing, including land use controls, displacement, building codes, fees and exactions, redevelopment projects, rehabilitation and preservation programs, and so forth;
- An analysis of the impacts of public sector redevelopment activities, private sector development, and gentrification;
- An analysis of racial impacts and discriminatory workings of the housing market;
- An analysis of special housing needs, such as those of the disabled, single parents, large families, farmworkers, the elderly, and low-income households generally; and
- A determination of whether a housing emergency exists pursuant to federal guidelines.

Goals, Objectives, and Policies: Once a locality has assessed its housing needs, it shall include within its housing plan: a statement of the community's goals; quantified objectives; and policies relative to the maintenance, preservation, conversion to social ownership, and development of social housing which satisfies those goals and objectives.

Housing Program: The local housing plan must contain a rolling four-year schedule of actions which will enable the local government to achieve its housing goals and objectives. This *action plan* will rely on the locality's land use and development control powers, regulatory concessions and incentives, and the use of federal, state, and local financing.

The local program must:

- Facilitate and undertake the development of adequate socially-owned housing for low- and moderate-income households, under the other provisions of this Program;

- o Include the local tenant protection and private management standards mandated by the National Tenant Protection and Private Rental Housing Conversion Act;
- o Specify social housing conversion mechanisms to be used in conjunction with specific targets and timetables;
- o Provide adequate sites, with appropriate zoning and development standards, to develop a variety of housing for different groups;
- o Assure that housing supply keeps pace with demand;
- o Minimize governmental constraints to maintenance, rehabilitation, and development of housing, including a review of such constraints as minimum lot sizes, design controls, parking requirements, secondary unit restrictions, exclusions against manufactured housing, and open space requirements;
- o Mitigate the negative effects of any public or private development activities on existing communities or the natural environment;
- o Regulate private rental housing, under the provisions of this Program; and,
- o Obtain signficant and widespread public input in the preparation and implementation of the housing plan and any amendments thereto.

Revision of Housing Program: The local government must establish a set of performance indicators for evaluating fulfillment of its housing plan, revising it annually as necessary.

Individual Standing: Individuals and groups are granted standing to challenge, in state or federal court, the adequacy of the local housing plan or implementation of the plan, and to demand that HUD examine the plan prior to approval or disbursement of federal funds. In any lawsuit or administrative hearing under this provision, the locality will bear the burden of demonstrating the adequacy of its plan and of implementation of the plan, and federal or state courts will have the authority equivalent to that of HUD to block or delay grants to non-complying states or localities.

6. First Year Program Costs

Table 1 summarizes several possible first-year options for implementing the proposed Program. We have estimated per-unit costs for the major components of the Program, and have then suggested a possible mix of these components which would be feasible for each of several different levels of total program cost.

The *medium cost option* summarized in the Table was chosen to correspond to the level of federal tax expenditures for housing, which is about $50 billion in FY 1986 (Dolbeare, 1986: 267).

The *lower cost option* is about one-half the medium option, and represents a minimum reasonable level for beginning to implement all of the Program's major components.

The *higher cost option* reflects the cost of a substantially greater commitment to new construction and rehabilitation, which of course have much higher per-unit costs than the other elements of the Program; it represents a production level which is about the most that probably could be achieved administratively and physically in the first year. Certainly, though, the capacity for social production would increase in subsequent years as the Program gets implemented.

The Program recognizes that the availability of resources for implementation depends ultimately on federal spending priorities and tax policy. There is no shortage of resources for housing or any other social objective--our medium cost option would cost only 5 percent of the FY 1987 federal budget and only a little over 1 percent of GNP. There has, however, been a shortage of affordable private resources and appropriate public resources due to several factors: first, the reliance on credit for funding housing; second, the dominance of speculative over productive investment; and third, the misallocation of public resources, in terms of both revenue-raising and public spending.

The Program addresses primarily the first and second of the resource problems. It recognizes, though, that no adequate housing program is possible without substantial tax reform--including both much greater equity and increased revenues to close the deficit--and a major shift in national spending priorities and commitments away from the military. Even our higher cost option amounts to only about one-quarter of the military budget.

In addition, it should be noted that while the Program provides direct capital grants for new construction and rehabilitation, the federal government could obtain the funds either by *direct appropriations* in the year the grants are made or by *borrowing money* through selling bonds which would be repaid, over time, with federal appropriations for interest and principal payments. Direct appropriations are used to fund military housing (Hartman and Stone, 1986: 486-487), while borrowing is used to fund public housing. This latter approach has the advantage of keeping the annual appropriations in the early years of the Program somewhat lower than the costs presented in the Table, since the full costs of the Program would not have to be paid all at once. This would offer the immediate advantage of reducing current costs, thereby permitting extension of limited resources in the short run. Borrowing eventually would cost more than direct appropriations, however, as years of borrowing require ever-larger appropriations to service the increasing debt. The mounting public cost of this approach could therefore jeopardize continued allocations for the Program. In addition, borrowing adds to the national debt and thereby contributes to macro-economic problems of debt overload and crowding out in the credit markets. The preferred method of raising the funds will thus depend upon tradeoffs between annual budget exigencies, on the one hand, and long-term fiscal and macroeconomic objectives, on the other.

Beyond the first year, Program costs similarly are a function of political choices as to level of Program activity. The Program, by its nature, will see a levelling off of capital grants for rehabilitation as the existing substandard stock is brought up to par, and a steady decrease in government funds needed to pay off existing mortgages for housing brought into the social housing sector, as these mortgages are retired.

Table 1

National Comprehensive Housing Program:
First Year Options

	cost/ unit (K)	Lower Cost		Medium Cost		Higher Cost	
		#units (K)	cost (B)	#units (K)	cost (B)	#units (K)	cost (B)
New Construction for Social Ownership (a)	$60	50	$3.0	200	$12.0	500	$30.0
Rehabilitation for Social Ownership (b)	$20	100	$2.0	400	$8.0	600	$12.0
Operating Subsidies for Social Housing (c)	$2	5,000	$10.0	6,500	$13.0	8,000	$16.0
Conversion of Private Rental Units (d)	$35	100	$3.5	160	$5.6	200	$7.0
Conversion of Homeowner Units (e)	$50	100	$5.0	160	$8.0	200	$10.0
Conversion of HUD-held units (f)	--	81	$1.3	81	$1.2	81	$1.3
Modernization of Existing Social Units (g)	$10	350	$3.5	500	$5.0	800	$8.0
Administration (h)	--	--	$1.2	--	$2.0	--	$3.5
TOTAL			$29.5		$54.8		$87.8

NOTES:

(a) Based on 1984 construction costs, adding land and subtracting finance costs, since financing will be through direct grants; see Hartman and Stone (1986: 489)

(b) Rehabilitation only (acquisition costs are included under conversion element); per unit cost is based on various rehabilitation projects.

(c) Operating expenses only (debt service included under conversion element). Derived from 1983 operating cost data, adjusted to 1985, and applying Stone's affordability scale (See Hartman and Stone, 1986: 494-49

(d) Assumes full payment of negotiated price in year purchased (see Hartman and Stone, 1986: 500-501).

(e) Assumes full payment at time of acquisition for mortgage balance and negotiated equity.

(f) Based upon Achtenberg, 1986.

(g) Existing assisted stock only; assumes that most units need modest but not major rehabilitation.

(h) Conservative estimate.

D. Program Summary

As a growing portion of our national housing stock is acquired, produced, financed, and owned by the social sector, with increasing public resources channeled for these purposes, adequate and affordable housing will become a matter of universal national entitlement. Accordingly, this Act will guarantee every resident, in the long run, the rights provided by all the foregoing legislation. These will include the following:

1. Affordability

The basic non-speculative nature of socially-owned housing, with operation and resale for profit prohibited, will significantly reduce housing costs and enhance affordability over time. Additionally, since all housing in the social sector eventually will be debt-free (with all new construction and rehabilitation funded through direct grants and the mortgage debt on converted properties retired), capital costs will be permanently eliminated from ongoing shelter expenses. Occupancy costs will be further reduced through increased reliance on non-profit management, making social housing affordable for the vast majority of residents.

Universal operating subsidies provided on an entitlement basis will further assist those residents who are unable to meet even the basic cost of housing operations in the social sector. With rents increasingly geared to true ability to pay, housing affordability will be permanently guaranteed for residents in the social sector. An equivalent level of affordability and subsidies will be guaranteed for tenants and owner-occupants whose units are in transition to social ownership. Tenants remaining in the private sector will also find their housing considerably more affordable, as rent control and other components of the program which reduce opportunities for speculative profit are implemented.

Over time, housing operating subsidies will become increasingly resident-based (as distinguished from project-based), to maximize freedom of choice for residents within the social sector.

2. Habitability

As the social housing sector expands, the quality of the housing stock and the physical standard of habitability to which residents are entitled will be progressively upgraded. For housing that is socially owned or in transition to social ownership, provision of direct grants will assure an adequate level of capital repairs, while operating subsidies facilitate ongoing project viability. Unlike the present market-oriented system where resources are invested in housing upkeep and renovation only when it is profitable for an owner or lender to do so, social ownership, financing, and production will guarantee both the incentive and the resources for continuous residential improvement.

Over time, with adequate capital and operating resources, both new housing that is produced directly for the social sector and housing that is converted to social ownership will be upgraded to achieve increasing levels of residential amenity. This includes improved physical features such as unit layout, apartment configuration, and site and building design, especially in response to the needs of special constituencies (such as single women with children). It also encompasses operating amenities such as increased energy efficiency and security, as well as social amenities such as day care and other services that should be residentially-based.

Additionally, increased voluntary upgrading by residents with enhanced security of tenure and control of their housing will continuously improve the quality of the social housing stock. Finally, tenants in housing that remains within the private sector will also achieve significant improvements in the quality of their living environments, as generally higher standards of residential amenity are adopted over time.

3. Security of Tenure

Under the proposed system of social ownership, production, and financing, security of tenure—the right to continued occupancy of a housing unit of choice—will be achieved as an aspect of residential entitlement. All social housing residents, including tenants and owner-occupants whose units are deeded or optioned to the social sector, will be guaranteed a permanent life-estate, except where removal of the housing unit is required for a compelling social purpose, or removal of the occupant is necessitated as a result of significant and repeated violations of community standards. With occupancy charges based on true ability to pay and management policies subject to resident control, instances of non-payment, destruction of property, and other traditional causes of eviction in our market-oriented housing system will be minimized.

Additionally, increasing regulation of conditions, use conversion, demolition, and eviction for other than a "just cause" will protect tenants remaining in the private sector from forced displacement, while rent control and other measures will further enhance security by promoting greater affordability. Finally, the creation of new ownership and tenure options not based on the protection of property values will encourage greater acceptance of neighborhood change and inclusionary housing patterns, providing a new basis for community security. As the discriminatory uses of housing in our profit-oriented economy are eliminated, with affirmative efforts to expand housing mobility and revitalize existing minority communities, the right of residential security will encompass a locational aspect: the right to remain in place or to move to an alternative neighborhood of choice.

4. Control

The right of residents to control their living situations will be progressively achieved under the proposed Program. Low- and moderate-income homeowners' ability to maintain control over their housing in the face of burdensome mortgage debt, property tax, and repair obligations will be enhanced through programs offering increased affordability and security of tenure. Increased protection of tenants' rights in the private sector, through collective bargaining as well as limitations on landlords' authority to dictate

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rents, occupancy terms, tenure, and living conditions will free residents to some extent from the arbitrary control exercised by others over their living situations. The Program's regulated conversion of the private rental housing stock will also significantly expand opportunities for direct ownership and control by resident associations, tenant cooperatives, and individual owner-occupants, on an affordable, non-speculative basis.

Ultimately, the level of control afforded to social sector residents as a matter of entitlement will be significantly greater than that experienced by most homeowners today. Positive features of conventional homeownership--such as the ability to modify and adapt one's living space to changing needs--will be retained and enhanced as residents achieve permanent affordability and security of tenure. And since resident and community benefit is the sole purpose of social sector housing production and ownership, residents and neighbors will be entitled and motivated to participate actively in housing design, development, and management decisions. As more and more of the social housing stock is actually developed and managed by resident-controlled and other social entities, opportunities for building and operating housing in a way that is truly responsive to resident needs will be significantly enhanced.

Finally, removal of opportunities for speculation in housing will enhance community control by increasing neighborhood stability. Enhanced resident and neighborhood control of housing also implies an obligation for increased collective responsibility, that is, for mediation and settlement of resident disputes and grievances. It also requires that control be exercised responsibly within the framework of basic democratic and non-exclusionary principles, and not be misused to deny anyone reasonable housing access or opportunity. As the concept of residential entitlement is progressively realized, the corresponding notion of residential responsibility will also be achieved.

Section III

Supplementary Measures

A. Tax Measures

Although parts of the Internal Revenue Code are ostensibly intended to encourage productive investment in housing, in fact they promote speculation and transfer wealth to upper-income owners. Although the 1986 Tax Reform Act removed some of the speculative pressures from the rental housing market (see section I.D. above), the present tax system continues to contribute materially to inflation in rents and prices, while costing the Treasury billions of dollars annually in revenues lost to income tax deductions and other loopholes. In this section of the Program, these inequities are addressed by focusing primarily on federal tax laws, including the homeowner deductions, depreciation allowances, capital gains taxation, and tax-exempt financing. A local property tax measure is also included, which could be adopted to satisfy federally mandated local housing requirements. Although state taxes are not treated, it is recognized that parallel changes in state income tax provisions must accompany the federal income tax revisions.

1. Overall Objectives

The overall goal of the tax reform measures is to promote social housing goals, end speculation in housing, and redirect resources into productive housing investment in the social sector. The tax system is also rendered more progressive, by eliminating measures which redistribute wealth upwards. Finally, to the extent that these measures generate increased public revenues; they should be used to finance social housing programs. This is because the profits that are made (and taxed) on housing derive from the redistribution of wealth from tenants and some owners to other owners and financiers. Retaining the proceeds of housing-derived taxes within the housing sector thus partially redresses inequitable market mechanisms.

Housing tax reform will not by itself fund the entire housing program. It does, however, have the potential of recapturing tens of billions of dollars lost to tax loopholes. These housing tax measures should be taken as part of a general tax reform act, which would eliminate all tax-sheltering provisions that do not contribute directly to productive investment consistent with social purposes.

2. Homeowner Deduction

Allowing homeowners to deduct mortgage interest and property taxes is extremely costly, while contributing to overconsumption and inflation in housing. Furthermore, homeowner deductions primarily benefit upper-income owners, both because homeownership is a function of income, and because those homeowners who itemize deductions fall almost entirely into the highest tax brackets.

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On the other hand, it is clear that the homeowner tax deduction enjoys considerable popularity, and is widely (although falsely) perceived as being of general benefit to homeowners. In the long run the Program will eliminate speculation in housing, greatly reducing price inflation and therefore the perceived need for homeowner deductions as a means of partially offsetting overpriced housing. In the long run we therefore propose eliminating this deduction as part of an overall tax reform which closes off a wide range of loopholes and other inequities. This would significantly lower the tax burden on low- and middle-income households, more than compensating for the loss of the deduction to homeowners. At the local level, regressive property taxes would be replaced with federal revenues raised through progressive income taxes and distributed locally, thereby eliminating that source of the deduction.

3. Depreciation Allowances

The notion that housing depreciates rapidly like other capital assets is a fiction of the Internal Revenue Code. While it makes sense to assume that plant and equipment may become obsolete over time and as a result require replacement, the same assumption cannot be made with regard to housing. Well-built and maintained housing does not lose value through obsolescence, especially over relatively short time periods. While the costs of maintaining rental property are rightfully expensed or capitalized as ordinary business expenses, fully depreciating the value of the structure—even over 27-1/2 years, as provided by the 1986 Tax Reform Act— affords a windfall to the owners of rental property, is costly to the U.S. Treasury, and encourages the holding of property as a form of tax shelter. While this provision is intended to stimulate investment, in fact it encourages rental housing to be regarded as another short-term component in an investment portfolio, to be bought and sold according to the immediate circumstances of the capital markets.

The following measures are proposed:

- o As an interim measure, ordinary (straight line) depreciation will be extended to 40 years and allowed only to those landlords who produce certification of code compliance and adequate maintenance, thereby giving evidence of good faith effort to maintain the quality of their asset.
- o In the long run, all rental housing depreciation allowances for the original cost basis will be eliminated, although provision will be made for depreciating capital improvements. While there will undoubtedly be some reduction in private rental construction, the federal revenue savings resulting from this revision will fund offsetting social housing construction. The elimination of the depreciation allowance will remove a major incentive for speculative and inflationary trading in the existing private rental housing stock.

4. Capital Gains and Anti-Speculation Taxation

It makes little economic sense to give preferred treatment to capital gains realized upon the sale of land or housing. Capital gains taxation, like the depreciation allowance, is intended to encourage productive investment by reducing the tax liability on profits that are earned as a result of such investment. In the case of housing, however, it is difficult to argue that profits from sales result from productive investment in the ordinary sense of the word. Rather, in most cases profits result from inflation alone--particularly inflation in the value of land.

In the long run, therefore, capital gains preference for income from the sale of rental housing should be replaced by a *windfall profits tax* on all sales. There are several caveats to this proposal, however.

- A steep tax on windfall profits could eliminate virtually all incentive to buy and sell existing rental housing. Since some private market reallocation of the existing stock may be desirable, a market mechanism for doing so would be provided by restricting the windfall profits tax to an appropriate range.

- The windfall profits tax will likely have the effect of reducing the incentive to construct rental housing. To partially mitigate this effect, the tax will not be applied to the first sale of any building by its developer, in which case profit will be taxed at the ordinary rate.

- Similar considerations should apply to substantial rehabilitation or other capital improvements. Such investment is productive, and the resulting increase in value should be taxed at ordinary rates.

As an interim measure, an *anti-speculation* or *deed transfer tax* is proposed. Such taxes, which have been adopted by some localities, have rates which are inversely graduated according to the length of holding and size of capital gain. Under this measure, the gain on property held less than one year would be taxed at 95 percent, with the rate declining by 5 percent per year through the tenth year, and 2 percent per year thereafter, eventually levelling off at 10 percent for property held longer than 30 years. Such a tax likely would be politically popular, particularly if sales or profits below a minimal amount were exempted. It would also have the advantages of raising revenues while discouraging speculation; this, in turn, would help cool off overheated housing markets, stabilizing neighborhoods threatened by rapid inflation. Such a tax would be a local measure adopted as part of a community's Federally Mandated Local Housing Program, with any funds collected earmarked exclusively for social housing programs.

5. Tax-Exempt Bonds

Tax-exempt bonds are an inefficient and extremely inequitable method of providing below-market funding for housing programs. In the long run, under the Program, tax-exempt bonds will be completely replaced with direct federal grants for social housing construction. Until this occurs, however, such financing will continue to provide some subsidy for housing programs. In no case should this method of funding be used for housing which is outside the social sector, whatever the income level of its target population.

6. Local Tax Reform

a. Progressive Real Property Tax

The property tax is regressive, since low-income households pay a higher percentage of their incomes for housing than higher-income households, and local assessment practices have been shown to exacerbate the inequities. This is particularly true in places where property values have inflated much more rapidly than incomes in recent years. Renters pay these taxes aspart of their rents. The wave of anti-tax measures, beginning with California's Proposition 13, is a response to these inequities; but the benefits of such measures have gone largely to the wealthy.

In the long run, property taxes should be replaced with adequate local revenues derived from state and federal income taxes. In the shorter term, the property tax itself could be made progressive by charging higher tax rates for more highly valued property. Such a reform would apply to all residential real estate, including residentially-zoned vacant lots. A minimum exemption, tied to local conditions, would provide circuit-breaker relief to low-income homeowners and low-income residents of private rental housing (in this case, rents would have to be controlled to assure that the tax savings were passed through to tenants). A portion of the local property tax should be earmarked for social housing programs.

The rate differentials need not be great to significantly enhance local revenues from property taxes. This tax would be one among the various possible local measures that satisfy compliance with federally mandated local housing obligations. In some states a constitutional amendment might be required prior to local enactment.

b. Luxury Housing Tax

A similar idea, more limited in scope, would be to charge higher taxes on certain classes of luxury housing, the proceeds of which would be earmarked for social housing programs. As with the progressive real property tax, this tax could be used to demonstrate local compliance with federally mandated housing requirements.

The principal features of such a tax would include:

o A progressive tax on a landlord's rental income from luxury units--that is, units that rent for more than a specified amount, the amount determined by local tenants' median incomes;

- A progressive deed transfer tax on luxury rental units--that is, units that sell for more than a specified amount, based on local market characteristics; and,

- A similar progressive deed transfer tax on luxury homes.

B. Financing Measures

1. Steering Private Credit Towards Social Housing Objectives

In the short run, the existing credit system will continue to be a major source of funds for all forms of housing. Some interim measures are therefore directed at providing lower-cost credit within the present framework. While these measures will in fact secure some additional lower-cost funding, they do not necessarily promote the social housing objectives of the overall program. Since they are directed at the private rental housing stock, it is important to tie subsidies to continued affordability of subsidized units. Ongoing control of rents and sales prices must therefore be part of any subsidy program. A further requirement is that all properties which receive subsidies be offered for purchase to the social housing sector, at a specified price, after a designated period. The price and period would depend on the "depth" of the subsidy.

The following mechanisms generally entail various forms of subsidy *within* the private credit economy. They are intended to "steer" private credit towards social housing objectives by means of regulations, incentives, or disincentives, including the following:

- **The Community Reinvestment Act** concept should be expanded and strengthened to include not only geographical responsibility, but also an affirmative obligation to meet the housing needs of low- and moderate-income and minority households, by expanding and upgrading the housing supply.

- **Differential taxes** can be imposed on private credit institutions, with rate differences rewarding socially-preferred types of lending. Revenues raised by such taxes can be targeted for use as direct grants to the social housing sector.

- **Loan setaside requirements**, according to which lenders are required to invest specified amounts (e.g., 5-10 percent of assets) for designated social housing objectives.

- **Differential reserve requirements** constitute another means of steering credit allocation. Under this approach, special reserve requirements are imposed for mortgage loans, with larger reserves for higher-cost mortgages. Low-cost mortgages could be exempted altogether, and lenders gi[illegible] a reserve credit for such loans as well. The mortgage rese[illegible] balances would be invested in low-cost housing. To the extent that lenders meet housing targets, the differentials would be reduced or eliminated.

- Finally, a below-market interest rate requirement can be imposed on lenders, whereby a certain percentage of loans must be made at below-market rates for social housing purposes. This will result in an internal transfer (cross-subsidy) among borrowers, whereby recipients of low-interest loans would be subsidized by other borrowers. This approach ("inclusionary banking") is similar to inclusionary zoning, whereby developers are required to price a targeted percentage of units for low- or moderate-income occupants.

Given the increasing role of insurance companies, pension funds, and other non-banking institutions as a source of housing credit, care must be taken that these measures do not disadvantage traditional lending institutions. The legislation which creates such measures must apply them equally to all sources of credit, and carefully monitor the results to insure that the private credit economy is not destabilized.

2. Building on Existing Government Programs

There are a number of federal programs which could be modified to provide some social housing.

- In any federal project where private developers receive funding, such as through Urban Development Action Grants (UDAGs), social housing should be provided as a part of the project.

- Urban redevelopment programs often offer the potential for public acquisition of land as well as public control over the development process, and thus could be used to facilitate construction for social ownership, if the programs were made subject to adequate community control.

- Replace tax-exempt bond financing with expanded direct financing through CBDG and UDAG programs. These two programs, despite their limitations, are existing mechanisms by which direct disbursements are made to localities from the federal Treasury for public purposes. Such financing, when used for housing, should be limited to social housing.

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October 5, 1987

Honorable Alan Cranston, Chairman
Subcommittee on Housing
and Urban Affairs
United States Senate
Dirksen Senate Office Bldg.
Room SD-535
Washington, D.C. 20510

Re: Comments on National Housing Policy for 1988 and beyond

Dear Senator Cranston:

On behalf of the Legal Aid Foundation of Los Angeles, I thank you for the invitation of the Subcommittee on Housing and Urban Affairs to provide input into the development of a new national housing policy. As legal advocates and representatives of low-income homeowners, tenants and homeless families and individuals, we could not agree more with the statement in your letter that the need for decent affordable housing has never been more urgent. The return of an affordable housing policy to the place it deserves on the national agenda, i.e., as a foremost national priority to which the federal government is fully committed, is long overdue for our clients.

Due to the magnitude of the issue, the short time in which to prepare these comments and the inherent limits on our expertise (as lawyers rather than policy makers, planners, developers, or economists), we are unable to provide the committee with anything resembling a detailed and comprehensive housing policy or legislative proposal. We therefore seek to accomplish the following three things by our comments:

First, as representatives of those who suffer the greatest as a result of the shortage of decent affordable housing in the Los Angeles area, we seek to comment and provide insight on the circumstances and needs of the Los Angeles and Southern California areas. These comments are intended, in some cases, as illustrative of nation-wide needs and, in others, as informative as to the specific needs of Los Angeles and Southern California.

Secondly, we wish to state what we feel should be the objectives of a new federal housing policy and the themes or principles which should guide the Subcommittee and Congress in enacting legislation to achieve those objectives. Neither the objectives nor the guiding principles are new ideas. They have been cited time and again by other housing advocates and experts. Their adoption as a part of a comprehensive federal housing policy, however, would be a new and major step toward addressing the nation's housing crisis.

Finally, we offer some more specific suggestions as to programs within each of the identified objectives, elaborating to some degree on the suggested principles described herein.

The Circumstances and Housing Needs of The Los Angeles Area

The need for significantly more decent affordable housing is as critical in Los Angeles as anywhere in the country. The U.S. Department of Housing and Urban Development determined Los Angeles to be the homeless capital of the country in 1983, estimating the number of homeless persons in Los Angeles to be in the neighborhood of 35,000. ["Report to the Secretary on the Homeless Emergency Shelters," (1984)] This situation is attributable primarily to one thing: the lack of affordable housing alternatives for those with low or very low incomes. Unless their is a dramatic increase in the supply of housing which is affordable and available to the poor, the crisis of homelessness will not improve.

Los Angeles has a public housing program that is large and viable, but which has suffered from poor management and a lack of opportunities for tenant involvement in management and the decision-making processes which affect the character and quality of the housing. Poor management, combined with the lack of sufficient modernization funds and operating subsidies, have resulted in excessively high vacancies and general disrepair.

In addition to operating the public housing program, the City Housing Authority is authorized to issue approximately 18,000 Section 8 certificates under the Section 8 Housing Assistance Payments Program. The demand for certificates is so great, however, that the City maintains a huge waiting list and only accepts requests for applications for very short periods of time every several years. During the past four years, the application process was only open one time for a period of three days, within which time the authority received 13,000 telephone requests for applications. (Requests by mail or in person were not accepted). Combined with those already on the waiting list, this created a new waiting list of at least 23,000 families.

Of those who are fortunate enough to obtain section 8 certificates, large numbers are still unable to find housing and participate in the program. Because of the high rents in Los Angeles and the lack of adequate code enforcement, it is extremely difficult for certificate holders to locate decent qualified housing at or below the section 8 fair market rents within the 60 or 120 period allowed.

There are also numerous factors encouraging the loss of affordable rental units, which present a constant and growing threat to those who depend upon the existence of affordable housing in Los Angeles. There is a history of inadequate code compliance and a practice of "slumlordism" by many landlords, rendering many affordable units beyond repair and ultimately subject to demolition. The inflation of land values has been the cause of speculation and the sale of residential property for commercial purposes, resulting in the loss of many affordable units. Local seismic safety requirements have resulted in the demolition of a number of older apartment buildings and single room occupancy (SRO) hotels, which provide a large part of what little affordable housing is still left for very low-income persons. Unless funds are made available for rehabilitation of such "seismic buildings" and other buildings currently in a state of disrepair, many more are destined to be lost.

The loss of affordable units owned by low-income persons is equally threatened. In South Central Los Angeles and Watts, occupied primarily by low-income minority families, there are large numbers of single-family homes, owned by persons of relatively low income, who were able to purchase the homes some forty years ago with the aid of FHA an VA loans. In most cases the mortgage payments on these homes are considerably less that the rents on comparable or lesser rental units. During the past fifteen years the dramatic increase in property values in southern California gave rise to numerous schemes by which speculators, mortgage loan brokers, lien-financed consumer lenders, foreclosure consults and persons commonly referred to as "equity rip-off" artists have caused the loss these homes by their original owners. The resale or rental of the homes is, of course, at much higher rates, and the original occupants are forced into lesser quality more expensive rental housing or are rendered homeless.

There are also factors making it impossible to build affordable housing within the Los Angeles areas without multiple subsidies. These, of course, include the very high cost of land in most of Southern California, and the high cost of private credit.

Obviously, not all of these factors or characteristics of the housing are unique to the Los Angeles area. Many of them are, in fact, common to large cities throughout the country. We believe that addressing them effectively involves the development of mechanisms which seek to achieve the objectives described below, keeping in mind the principles or themes suggested.

Objectives and Principles of the Federal Housing Policy

The principle objectives of a federal housing policy which will move this country closer to the goal of a decent house for every American seem self-evident. They are:

(1) Preserving the existing stock of affordable housing;

(2) Increasing the housing stock available to the poor; and,

(3) Prohibiting the displacement of low-income families and individuals from affordable housing.

These are the principles identified by Florence Wagman Roisman in her article, "Legal Strategies for Protecting Low-Income Housing," American Housing Crisis What Is To Be Done, 1983, Institute for Policy Studies. Pursing these objectives obviously requires a major commitment of funds. We strongly believe that the federal government must develop an aggressive legislative policy which makes a meaningful commitment of such funds. It is clear that, in recent years, state and local government and private organizations such as non-profit community development corporations and limited equity co-ops have done much more than in the past toward preserving and producing affordable housing. It is equally clear, however, that they cannot be effective without the cooperation, assistance and support of the federal government, including federal financing of past and future housing programs. This does not mean, however, that we advocate indiscriminate and unlimited spending by the federal government in the field of housing. Certain themes or principles should serve as guidelines in the development, funding and implementation of federal housing legislation. These include the following:

1. Priority should be given to funding non-profit development and operation of affordable housing. Reliance on profit incentive through tax credits and other mechanisms raises the cost of producing or rehabilitating housing and increases the risk of future loss of units due to the desire to maximize profits.

2. Federal funds should be utilized in ways that encourage the contribution of money from local government or private entities for housing, or which support other already committed or available financing sources so that the projects to which they are committed are feasible. Consistent with this theme, there are a variety of potential "incentive" programs which could be utilized to entice state and local governments to contribute more to the financing of affordable housing.

3. Programs should be designed in such a way as to be actually affordable to those intended to benefit. Rents should be based upon actual ability to pay after the cost of other necessities are considered, rather than percentages of income. Consideration should be given to

adoption of Professor Michael Stone's theory of "maximum affordable shelter costs" as a basis for setting rents in public and subsidized housing.

4. Funds should be targeted to benefit those most in need, i.e., priority should be given to programs which will serve lower-income and very low income families and individuals.

5. Funds should be utilized in cost-effective ways. Direct financing of low-income housing, for example, is preferable to indirect financing through tax credits and other market incentives. Manufactured and modular housing may also be a way to provide housing in a cost-effective manner so long as quality is assured.

The following section consists of more specific suggestions for improving existing programs or designing new ones based upon the above-described objectives and themes. In some cases the suggestions are merely stated without elaboration, while others may include both discussion of the problem and the specific proposal for addressing it.

Objective 1: **Preserving Existing Affordable Housing**

(1) Public Housing

This is by far the largest federal housing program and, despite its reputation, a successful one. It provides affordable housing for a very large number of the nation's poor, and is both more affordable and less expensive than federally subsidized but privately owned housing. Many of these units in Los Angeles and elsewhere, however, are in a state of serious disrepair. There is an immediate need for modernization and operating subsidy funds to rehabilitate existing units and avoid their sale to the private market, conversion, and/or demolition. Many of the problems associated with public housing stem from poor management and the lack of tenant involvement in the operation of the projects. Tenant management and involvement in the operation of public housing should be encouraged.

(2) Subsidized Units [Sections 221(d)(3), 236, and 202]

Mechanisms must be developed for the avoidance of the expiration or pre-payment of mortgages and the resulting loss of the corresponding low-income commitments. Congress should explore theories and mechanisms by which in can require or encourage private owners of subsidized housing to retain the low-income nature of the housing. This might include sale of the buildings to non-profit organizations who would then receive operating subsidies to continue operating the projects as low-income projects.

(3) Federally Owned Units

Foreclosures on HUD, FHA and VA financed or subsidized single-family and multi-family units have resulted in a large inventory of low-income housing units owned by the federal government. It is essential that Congress take steps to preserve the existence of these units and their low-income character. Such steps might include:

(a) Restrictions on the disposition of such units by HUD and the other agencies such as requiring that the units retain their low-income character upon disposition;

(b) Legislative mandates requiring that HUD and the other agencies limit the number of permissible vacancies in government owned units and maintain the condition of such units;

(c) Greater acceptance by federal agencies of "occupied delivery" of FHA and VA insured foreclosed properties;

(d) Significant strengthening of the HUD assignment/TMAP (Temporary Mortgage Assistance Payments Program) and the Veterans' Administration Refunding Program, both of which were designed to assist homeowners with FHA or VA insured loans to avoid foreclosure and prevent the loss of their homes. Nationally, the rate of foreclosure on FHA and VA loans is nearly double that on conventional loans. Savings Institutions Sourcebook 87, United States League of Savings Institutions. As evidenced by the extensive litigation in Farrell v. H.U.D., the Department of Housing and Urban Development has steadfastly refused to implement the FHA assignment program in a manner that actually assists low-income homeowners and prevents foreclosure. The Record of the Veterans Administration is even worse. See, Rank v. Nimmo. Given the record of these agencies, serious study should be given to a program which would fund a non-profit agency or agencies to accomplish the original purposes of the assignment and refunding programs.

(e) Establishment of restrictions on the use of funds that become available to the agency as the result of the disposition of government owned property. An account separate from the general fund might be established for this purpose, the sole use of which would be the financing of housing to replace the lost units, with minimum affordability requirements.

(4) Private Units

(a) Without intervention, many of the units on the private market that are currently affordable will be demolished or be lost to low-income families by private rehabilitation and pass-through rent increases. This includes older buildings which are viable but in a state of disrepair, as well as buildings which are subject to seismic safety enforcement that is prohibitively expensive. Financing mechanisms should be developed and made available to non-profit agencies and owners for the purpose of rehabilitating dilapidated and seismic buildings without a pass-through to present and future tenants. Such mechanisms should restrict or prohibit rent increases following rehabilitation.

(b) Federal assistance or financing to non-profit agencies should be made for the purpose of engaging in single-family foreclosure assistance and for the purpose of acquiring foreclosed properties and reselling those properties on a non-profit basis to those families who lost them or to other low-income families.

(c) Federal incentives should be developed and implemented to encourage local governments to engage in strict code enforcement and to adopt anti-demolition and replacement housing measures. These might take the form of direct incentives such as the withholding of desired federal funds for those jurisdictions which fail to enact such measures.

Objective No. 2: Increasing the Supply of Existing Affordable Housing Available to the Poor

The existing housing stock in most major cities, including Los Angeles, is insufficient to house everyone, even if it was available to low-income people. It is therefore obvious that production programs must be developed in order to alleviate the housing crises. The federal government must renew its commitment to producing new affordable housing, which it has abandoned in the recent past. In so doing, it will join local and state governments in their continuing efforts to produce more affordable housing. In keeping with the foregoing themes, the federal housing policy should:

(1) Enlarge the public housing inventory -

Improvement in the design and management of new projects and providing opportunities for tenant management are necessary to remove the stigma attached to this program and improve the quality of the housing provided. The program is clearly one of the most cost effective ways of producing new low-income housing, however, and should not be abandoned.

(2) Give full priority to the funding of projects undertaken by and managed by non-profits and limited equity co-ops -

Utilizing non-profits and limited equity co-ops eliminate the initial and continuing expense caused by building profit margins into the financing and operation of affordable housing. In this regard, we support the suggestions put forth by the National low-income Housing Coalition in their Community-based Housing Supply Program.

(3) Create incentives for the infusion of private limited or non-profit capital -

Research is necessary to develop mechanisms for getting other sources of capital into housing. One mechanism worth exploring, for example, is federal guarantees for the investment of private pension funds in housing.

(4) Fund alternative and cost-effective housing production techniques -

Housing production techniques have remained essentially unchanged for several decades, with the exception of a limited incursion of manufactured housing techniques in the single-family market. Current data suggests that manufactured housing technologies can produce housing at about half the cost per square foot of traditional technologies at the single-family scale. Very little, however, has been done in utilizing this technology to produce multi-family housing, which is essential in urban markets because of land costs. The federal government should invest Research and development dollars toward developing workable models of applying manufactured housing and other alternative technologies to multi-unit urban housing.

(5) Strengthening fair housing laws to make more housing available to low-income -

Because families with children experience discrimination in housing low-income families with children have their housing opportunities doubly restricted. In addition, since a high percentage of poor people are children, such discrimination falls disproportionately on the poor. The Fair Housing Act should be amended to include families with children among the classes of persons protected. Federal Fair Housing law should also be strengthened by enactment of pending legislation sponsored by Senator Kennedy, which would establish Administrative Law Judges for individual discrimination cases, and by establishing minimum statutory damages.

Objective No. 3: **Preventing displacement of low-income families and individuals from affordable housing.**

Aside from the hardship imposed on poor families and individuals by displacement from their residences, displacement is either caused by or results in speculation and the eventual rise in the cost of the housing, whether by resale or by rental increases paid by new tenants. It is important, therefore to severely limit the amount of displacement that occurs. A considered federal housing policy can seek to accomplish this both by prohibiting or restricting displacement resulting from its own programs and by creating disincentives for displacement resulting from local activity.

(1) Displacement caused by Community Development Block Grant activities -

Last year the subcommittees considered and rejected amendments to the law that would provide strong anti-displacement protections. These provisions should be reconsidered and approved.

(2) Displacement caused by Federal activities generally -

The Uniform Relocation Act (URA), the primary federal anti-displacement and relocation legislation is presently not within the jurisdiction of the Senate Subcommittee on Housing and Urban Affairs, or the full Senate Committee on Banking, Housing and Urban Affairs. Although historically it may have made good sense to have other committees legislate federal relocation programs because highway construction and other non-housing programs caused significant displacement, housing construction and community development are probably the primary causes of displacement today. Federal relocation legislation should be within the jurisdiction of the committees which have as a top priority, anti-displacement and relocation legislation. The lack of such legislation only exacerbates the present housing crisis.

In terms of specific recommendations in the area of federal relocation, we support the amendments to the URA which were passed in April 1987. Significant protections for low-income displacees have been included in these amendments and it is important that these changes not be eliminated or undercut by the lead agency, the Department of Transportation (DOT), HUD or OMB. The amendments do not become effective until DOT issues regulations or two years from the date of Congress' passage of the amendments. We support the timely implementation of these amendments.

There are several areas where the URA could be strengthened even further. Our recommendations are as follows:

(a) The URA should cover displacement resulting from federally assisted code enforcement activities.

(b) The financial assistance should be increased to adequately compensate the displacee.

(c) A prior written relocation plan should be required for all displacement covered by the URA.

(3) Private displacement

As indicated previously, federal funding for rehabilitation of private dilapidated housing, with limits on rental increases, will help avoid displacement caused by demolition or private rehabilitation.

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> In addition, federal efforts in this area might make use of incentives for encouraging local anti-displacement measures. Desirable federal funds such as UDAG and CDBG funds, for example, might be tied to the enactment of strong anti-displacement laws and relocation requirements which apply to all displacement causing activity.

Funding for federal financing of low-income housing programs

Many of the above-described suggestions require major commitments of federal funds. This is to be expected. There is no magical way to produce affordable housing without a commitment of capital. If the Congress is committed to the goal of defeating the housing crisis, it must make that commitment along with state and local legislative bodies. In making budgetary decisions, the Congress should consider housing among its foremost priorities.

We obviously cannot here engage in a detailed analysis of the federal budget and identify areas in which funds can be made available for the production and preservation of low-income housing. We suggest, however, that one source to which Congress look is the expenditures it already makes for housing in the form of tax subsidies for homeownership. See Statement of Cushing Dolbeare, President, National Low Income Housing Coalition, before Committee on Finance, United States Senate, May 18, 1981.

While an estimated 50,000 LA residents are forced to live in garages, and another 35,000 are estimated to be homeless at any one time, the federal government continues to subsidize extravagant housing expenditures by the very rich. We have two suggestions:

(1) That Congress revisit the mortgage interest deduction on second homes, or at least on second homes with a market value above a certain limit; and,

(2) That the federal government either impose, or encourage states to impose, transfer taxes on luxury housing. The proceeds of these funding mechanism should be targeted toward the homeless and very low income persons.

We hope the Congress considers these and other mechanisms for financing housing programs which attempt to achieve the objectives stated herein and are consistent with the principles we have suggested.

Thank you again for your solicitation of our input. We look forward to the opportunity to participate further in this process, and sincerely hope that it results in the enactment of legislation which begins once again moving the country towards realizing the goal of a decent home for every person.

Sincerely,

Mark T. Johnson

Mark T. Johnson
Directing Attorney
Housing Law Unit
Legal Aid Foundation of
Los Angeles

MTJ:kims

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October 14, 1987

Honorable Alan Cranston, Chairman
Subcommittee on Housing & Urban Affairs
United States Senate
Dirksen Senate Office Bldg., Room SD-535
Washington, D.C. 20510

Re: *Corrections to Letter of October 5, 1987*

Dear Senator Cranston:

On October 5, 1987, we forwarded a letter to the office of the Senate Subcommittee on Housing and Urban Affairs in response to your request for input on possible a proposed federal housing legislation. At page 6 of that letter, two federal cases were referred to as illustrative of the problem pertaining to the HUD assignment and Temporary Mortgage Assistance Payments Programs and the Veteran Administration's Refunding Program. Unfortunately, the citations for those cases were omitted. Those citations are as follows:

> *Ferrell v. Pierce*, 560 F.Supp. 1344 (N.D., Ill.) (1983), (amended by unpublished order to July 11, 1985) *Aff'd*, 743 F.2d 454 (7th Cir. 1984). (Finding that HUD's proposed TMAP regulations violated a 1979 settlement and the intent of Congress).
>
> *Ferrell v. Pierce*, 743 F.2d 1372 (7th Cir. 1986) (reversing an unpublished opinion of the district court finding HUD's "two-month" rule to calculate the date of the homeowner's default a violation of the 1979 decree and requiring HUD to reprocess all cases rejected due to the two-month rule).
>
> *Rank v. Cleland*, 460 F. Supp. 920 (C.D. Cal. 1979), *rev'd sub nom.* *Rank v. Nimmo*, 677 F.2d 692 (1982), *Cert*. *den*. 459 U.S. 907 (1982). (Finding that homeowners have no right to sue the VA for its failure to implement the refunding program which would provide foreclosure relief).

The *Ferrell* case was originally filed as *Brown v. Lynn*, 385 F.Supp. 986 (1974), *reconsideration denied*, F. Supp. 559 (1975) The subsequent litigation cited above concerned changes in the assignment program by HUD following settlement of the case.

Honorable Alan Cranston, Chairman
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Please accept my apologies for the omission of this information from the original letter.

I would also like to request that you include this office on the list of those persons and agencies who receive a copy of the publication containing the assembled suggestions of the various organizations from which you have sought input. Please let me know if there is any cost for receiving that publication.

Very truly yours,

Mark T. Johnson

Mark T. Johnson
Attorney at Law

MTJ:kims

LISC

LOCAL INITIATIVES SUPPORT CORPORATION
[illegible] THIRD AVENUE, NEW YORK, NEW YORK 10017
PAUL S. GROGAN, PRESIDENT
[illegible]

October 5, 1987

Senator Alan Cranston
Senator Alfonse M. D'Amato
United States Senate
Committee on Banking, Housing
and Urban Affairs
Subcommittee on Housing and Urban Affairs
Dirksen Senate Office Building
SD-535
Washington, D.C. 20510

Dear Senators Cranston and D'Amato:

Thank you for your letter of July 20, 1987, in which you invite our help in developing an effective, new framework for national housing policy. As a member of the Housing Policy Task Force chaired by James Rouse and David Maxwell, I will be participating in this effort. However, we think it is important to express our views, for the record, in response to your written request.

The Local Initiatives Support Corporation (LISC) is a national, nonprofit lending and grant-making organization founded in 1980 to marshal private sector financial and technical resources for housing and commercial development in distressed communities. With total capital resources of about $140 million -- received from over 400 major corporations and foundations -- LISC has supported several hundred nonprofit community development corporations ("CDCs") nationwide in the construction or rehabilitation of more than 11,000 units of affordable housing and 3.3 million square feet of commercial and industrial space. These production levels have been achieved over the past seven years with little or no direct federal government support.

During this period of federal government withdrawal, a new delivery system for the production and preservation of low-income housing has started to emerge. Perhaps the most promising approaches involve the establishment of local public/ private/ community partnerships. These partnerships assemble a range of financial and technical support resources to enable CDCs to produce and preserve low-income housing. As part of these partnerships: CDCs act as project developers, often in concert with for-profit builders; private lenders provide market-rate loans; state and local governments provide long-term subsidies; private corporations make tax-advantaged investments; and nonprofit intermediaries attract foundation and corporate donations and provide seed capital and technical assistance.

These new partnerships have demonstrated significant progress toward producing low-income housing at meaningful levels, but they are constrained by the resources at their disposal. Active federal leadership and financial support are essential if these initiatives are to succeed on a broader scale.

Building Blocks for a New Federal Housing Policy

We wholeheartedly agree that it is time to move housing back up on the national agenda, and that a fresh new framework should be developed. It is clear to us that the federal government should not return to past policies that have been criticized for involving massive and inefficient deep subsidies and only loose targeting of assistance to those in greatest need. Furthermore, given ongoing budget deficits, the federal government cannot be the only actor in addressing the nation's housing needs. Highly targeted, modest investments by the federal government can leverage substantial private, charitable, city and state participation. In sum, the federal government should be one of several partners, acting as catalyst, risk-taker, and subsidy provider.

We believe that the following principles should guide the development of new federal housing initiatives:

- **Federal policy should encourage partnerships among the federal, state and local governments, CDCs, and the private sector.**
  - Federal policy should stimulate housing investments by other partners.
  - The use of nonprofit financing and technical assistance intermediaries should be encouraged.
  - Federal policy should encourage the leveraging of new dollars, and not replace existing spending.
- **Housing should be closely linked with community development.**
  - The effect of housing development on distressed communities is substantial, especially when undertaken as part of a comprehensive community development strategy.

- -- Neighborhood stability is important to the preservation of low-income housing -- whether the housing is federally assisted or not.

- -- Involving community residents -- especially through CDCs and other nonprofit housing developers -- is essential to achieving this linkage.

- -- Homeownership increases residents' stake in their communities. The opportunity to own an affordable home should be provided to low-income families.

o **Policy should recognize and respond to the different housing needs of various communities.**

- -- Low-income housing needs differ from city to city. For example, in cities like New York and Boston, housing supply shortages and affordability even for moderate-income households are critical problems; in cities like Cleveland and Baltimore, deterioration of existing single family houses is a greater concern.

- -- Different neighborhoods within a given city vary.

- -- Federal policies should not impose a single rigid view of local housing needs. Rather, programs should offer flexible tools that can work under different market conditions to meet the needs of low-income people and communities. Project funding decisions should be made at the state and local levels, not by the federal government.

o **Federal policy should encourage a range of local initiatives.**

- -- There is no single solution to low-income housing problems; instead, there are literally hundreds of solutions.

- -- Local initiatives have been the source of numerous successful housing efforts over the past several years, especially since relatively inflexible federal programs, such as Section 8, have been curtailed.

- -- It would be wasteful not to harness local creativity, energy, and financial resources.

- -- Local initiatives have important research and development value; they are a cost-effective way to test new program ideas.

- **Low-income housing opportunities created under federal programs should be sustainable over the long term.**
  - Previous federal programs often did little to encourage quality construction, sound management, and long-term low-income use.
  - CDCs and other nonprofit sponsors, limited equity cooperatives, mutual housing associations, and other public purpose organizations committed to providing long-term low-income housing opportunities should be utilized to the greatest extent possible.
  - Residents should participate and have a long-term interest in the housing they occupy.
  - Profit-motivated sponsors should be encouraged to transfer ownership of housing to public purpose ownership.
- **Federal programs should be made as cost-efficient as possible in terms of the cost per low-income unit.**
  - It should be acknowledged that some earlier federal housing programs were too costly, and that this inefficiency undermined public support for these programs.
  - Federal assistance amounts should be limited based on the number of low-income households served.
  - Subsidies should be repayable when low-income use is discontinued.

LISC is currently formulating specific legislative proposals that will build upon these basic principles. I will be presenting these proposals to the Housing Task Force and the Subcommittee in the coming weeks.

We thank you for the opportunity to participate in this very important effort.

Sincerely,

Paul S Grogan

Paul S. Grogan
President

National Association of Regional Councils
Issues Paper--Housing

Background:

Housing is and will continue to be a high priority issue for the entire country into the 1990s. Major revisions in national housing policies are currently being considered in Congress, by the private sector through a national forum, and in many state and local governments. Decisions will be made and will go into effect early into the next Presidential administration.

Recommended Policy Positions:

Most issues surrounding the provision of housing for the elderly and low income individuals as well as affordability for millions of middle income families are regional in scope, i.e. they transend jurisdictional lines and are based on markets that are larger than a city or county but smaller than a state. Housing and community development policy in the 1990s should recognize this regional dimension.

Decent, safe and sanitary housing is a basic human need. Although the bulk of housing for all income levels has been provided by the private sector, continued federal assistance is necessary to produce housing for low and moderate income persons. A realistic level of federal assistance is essential if the nation is to meet its commitment to ensure equal opportunity and access to housing. Cutbacks in the public housing maintenance programs have the potential of reducing available housing stock and increasing the financial burdens of local governments and public and non-profit housing authorities.

The solution to many housing problems demands a regional perspective. Many local governments are working together to improve affordable housing opportunities for people of moderate incomes, particularly first time buyers. On behalf of member local governments, regional councils have undertaken comprehensive studies to determine how local regulatory processes (zoning, subdivision standards, codes) can be reformed to reduce costs. The following recommendations should be implemented:

(a) HUD should recognize and administer its programs on the basis that housing market areas transcend individual jurisdictional boundaries.

(b) The Congress and HUD should provide for supplemental, bonus housing units in regions willing to undertake areawide housing programs.

Access for Low and Moderate Income Households

The federal government also has a significant legal responsibility to ensure equal opportunity and access to housing for all, especially for low and moderate income persons. Recommendations include:

(a) Rehabilitation of existing housing represents the most productive means of providing future low income housing needs while preserving neighborhoods. NARC recognizes the need for additional new housing units, particularly in growing communities where housing supplies are short.

(b) Priority should be placed on lowest income households in housing assistance programs.

(c) Federal incentives, such as community development funds should be made available to regional and local governments to assist the federal government in housing low income people.

(d) A housing voucher system should be allocated on an area housing market or substate regional basis and should encourage new production where housing supplies are short.

(e) The federal government should encourage corporate social responses to meeting local and regional housing needs.

HOUSING AS THOUGH PEOPLE MATTERED:

POLICIES FOR THE 1990s

Prepared By:

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Oct. 1, 1987

Prepared For:

Subcommittee on Housing and Urban Affairs

U.S. Senate

INTRODUCTION

A crisis in housing cost, efficiency and availability has developed in the United States in the last 15 years. In addition, the housing of the past is not meeting the needs of the present. Housing appropriate to today's families, including single parent, elderly, blended families and singles, is not being developed. Instead, the models of the post-war period continue to dominate the development of communities and urban areas, despite the costs to individuals and society.

During the same period, the federally supported system of public and subsidized housing has run into difficulties and soaring costs. In many areas, low-income Americans are facing extreme hardship due to lack of affordable, adequate shelter, and homelessness is increasing in many communities.

The housing crisis isn't limited to the low-income. Rapid increases in the costs of construction, energy and property taxes have made renting or purchasing an affordable and desirable home difficult for those of moderate income, as well.

The speculative and decentralized nature of the housing industry has made for difficulty in improving the energy efficiency, quality, affordability and community appropriateness of today's housing. New developments often add inordinate fiscal burdens to local communities through unaffordable infrastructure costs. Yet, the federal tax structure generally discourages the maintenance of rental property for low- and moderate-income families, and landlords are prompted to abandon rental shelter at rate estimated to be 600,000 - 800,000 units per year.

Due to the fact that no coordinated network of housing assistance services is available, it is difficult to even gather the relevant information about the scope of the current housing crisis. For many years, the nation has been without a cohesive, well-developed housing policy. In recent years, the federal role in housing has been shrinking, and this had led to confusion and further acceleration of the aforementioned problems.

However, the current housing crisis affords many opportunities to improve the lives and communities of Americans, if innovative, multi-level solutions are implemented. This policy brief provides several proposed solutions for policy makers, solutions that recognize the difficulty our nation faces in addressing these problems while setting up a structure to provide relief to those in greatest need.

Background

The National Center for Appropriate Technology (NCAT) was founded in 1976 by Congress to investigate, critique, develop and transfer applications of appropriate technology that hold promise for meeting the long-term human needs for energy, shelter, food, education and transportation. NCAT's primary constituency has been the low-income. The organization developed an innovative small grants program, which provided funding for local energy conservation and renewable energy projects for the low-income throughout the nation. NCAT has strong programs of research and development in building technology, and has monitored the mounting problems of the low-income in obtaining affordable shelter and affordable utility costs since its inception.

The basic premise of the appropriate technology approach is to foster local solutions to problems, solutions that satisfy a number of interrelated problems. The following policy proposals have local emphasis and control as their key feature, while calling for a consistent federal response to key policy problems.

1. Low-income Housing as a National Resource

NCAT's contention is that low-income housing should be removed, from a policy standpoint, from the "commodity" market, and instead should be seen as a public resource to be developed and supported.

The current speculative approach to housing development cannot, given current costs and returns, provide the needed stock of permanent low-income housing. However, if federally sponsored or planned low-income housing is "set aside" from the speculative market system and seen as a national resource, it will result in benefits for the housing industry and the nation as a whole in a number of ways.

Rather than being seen as a burden on taxpayers and society in general, low-income housing can provide solid benefits to all sectors of society, by being the front-line of the national movement to improve and change our housing so that it meets our needs as a people.

Due to the nature of the housing industry, such changes and improvements may take decades to transfer to the bulk of new or existing housing. For example, through changes in construction practice, it is currently possible to build housing that is 50 percent more energy-efficient than that currently constructed at no overall extra cost, but it is very difficult to transfer these methods and technologies to the decentralized, speculative housing industry, which may not see a "market demand" for such improvements.

Yet, low-income housing can demonstrate and document the advantages of innovations of design, construction and planning, while providing for local economic development for disadvantaged individuals and families. These innovations can then be "trickled up" to housing for the more affluent, as they are adopted by the speculative housing industry. Thus, well-planned government investments of research, development and demonstration in the resource of low-income housing would provide overall improvements in housing, and in time upgrade our nation's competitive stance in regard to the trade in foreign housing components and systems.

Policies must be developed to build a solid, lasting infrastructure of affordable, innovative, energy-efficient low-income housing, housing that promotes family and community well-being through proper design, location and integration into existing support services. Emphasis should be given to projects and programs that feature proper local planning, involvement of the users of the housing, attention to employment and transportation issues, and low-income economic development.

Through support for local organization and planning, this housing can serve as the focal point for a variety of related activities that will ensure local control over low-income housing, while turning over responsibility for future development, maintenance and management of this housing resource to the local low-income community. To accomplish this end, federal support is needed to spark activity on the local level.

2. A Network of Housing Assistance and Development Associations

MCAT supports the creation of a coordinated network of local and neighborhood housing associations that are designed to address, on a local level, the problems of low-income housing supply, management and maintenance.

Today, responsibility for low-income housing development, production and management are scattered among a variety of local, state and federal programs, agencies and private systems. In order to make improvements in low-income shelter possible, this disorder must be addressed, with a new model developed. Federal policy should be geared toward the orderly move toward the new model, through federal sponsorship of the best local housing associations and organizations and through the incentive of federal support of a network of appropriate local organizations.

These associations could provide the focal point for local resources, as well as manage federal support toward the goals of job creation, job training, housing maintenance, management and production of further low-income housing and model community housing developments for low-income persons.

In the last decade, pilot programs have been conducted that were aimed at providing low-income and tenant involvement in the production, management and maintenance of low-income housing. Such programs can also ensure that low-income rental housing is permanently available. For example, the model of the "Mutual Housing Association" in Baltimore provides for low-income tenant participation and governance of housing, while providing for support for new housing, appropriate maintenance and the need for tenant security through an indefinite lease agreement. The tenants do not own the property, but they have some of the responsibilities and benefits of ownership. In other programs, low-income tenants are provided with education to allow them to manage and maintain neighborhoods of low-income housing.

The housing policy of the future must include the development of a network of such model associations, to provide for effective housing delivery as well as accountability for program results. Such associations would also facilitate the transition of low-income housing from a commodity to a resource: they could be the basis of participation in the new community housing models needed for the future of all housing.

These associations could also branch into self-sufficient housing service businesses that would provide local low-income employment and training while providing desperately needed housing rehabilitation and maintenance services, to low-income housing as well as housing owned by low- and moderate-income persons, such as single parents, the elderly and the handicapped.

Federal support for this network should be a priority. This support could best be phased in on a competitive basis that would allow for performance evaluation and study to ensure that the network is developed in the most effective, cost-effective fashion. The foundation for such a network must be carefully laid if it is to be a prime building base for the resource of low-income housing. A thorough evaluation of the current "system" of low-income housing delivery should be a part of the development of such a network, in order to maximize current low-income housing resources, attract available dedication and talent already working at the local level, and avoid unnecessary dislocation or loss of low-income housing resources currently in place.

3. Technical Assistance and Research Aimed at Low-Income Housing

NCAT contends that federal support and emphasis should be placed on multi-disciplinary, objective research, demonstration, evaluation and technical assistance for the development of low-income housing as a resource. Without such support, innovation and improvement in housing and community design and development will never occur in the current speculative housing system.

In order to make the most of local resources and provide for other auxiliary benefits from investments in low-income housing, local housing associations need access to sound technical assistance. This assistance is best based on thorough replicable research and demonstration efforts.

Housing must be elevated to a major national priority for such research and development to have impact on remedying the current housing crisis and slowing its uncontrolled expansion. But, even with this emphasis, it is unlikely, due to the interdisciplinary nature of housing, that the current education and research system will on its own provide the needed momentum for technical change, innovation in design and development, and the connection to local economic development initiatives in low-income housing. Thus, special federal support should be considered for centers of research and education dedicated to addressing housing problems in a holistic fashion on the local level.

In addition, this federal support is critical to balance the boom-and-bust cycles in housing and provide desperately needed continuity to the overall development and improvement of housing in this country.

4. Energy Efficiency of New and Existing Housing

Barriers to energy-efficiency investments in low-income housing must be eliminated.

The soaring costs of energy in low-income housing have been a wasteful and unnecessarily large segment of federal costs to support low-income housing. Current federal policies have encouraged this waste for more than 10 years. The housing policy of the future must consistently eradicate programmatic barriers to energy conservation investments in low-income housing, and provide incentives for the production of the most efficient new units possible.

From a technical standpoint, energy efficiency improvements must be integrated into the overall approach to building technology to ensure the best results. More than a decade of experience in improving the energy efficiency of shelter has shown that energy-related improvements must be made such that the overall result is positive: quick fixes that cause problems to arise later must be avoided. The lessons of the last decade, including the need for technical assistance and continued research, must not be ignored in setting a policy for energy efficiency investments in low-income housing.

As has been shown repeatedly, investments in energy conservation improvements have strong positive impacts on local economies, offer opportunities for low-income job training and creation, and help avoid the further loss of needed low-income units through combining maintenance and energy-efficiency work.

In addition, the energy impacts related to transportation should be a part of any incentives to reduce energy consumption. Low-income housing should be protected from the devastating impacts of sharply rising energy costs - both for heating and cooling and for transportation to workplaces and childcare centers.

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October 5, 1987

The Honorable Alan Cranston
United States Senate
Washington, D.C. 20510

Dear Senator Cranston:

Thank you for your interest in receiving broad-based input into the formulation of 1988 congressional housing initiatives.

Our organization along with the newly formed National Resident Management Association is greatly appreciative of the leadership your committee has provided in convening hearings and establishing a national authorization for resident management in the 100th Congress. We are particularly pleased with the resident management provisions of S. 825 sponsored by Senator Alan J. Dixon, and hope that the basic elements of his proposal will continue to receive attention in 1988.

There are several additional areas of concern we hope the committee will examine in the upcoming hearings on housing authorization:

1) Provision of Low-Income Housing by the Non-Profit Sector

The current analysis of housing production by the non-profit sector should be broadened to include resident management corporations. In several cities, these organizations have established construction management firms which have engaged in creative joint ventures for new housing generation outside of their public housing sites. By involving low-income residents in Comprehensive Improvement Assistance Program (CIAP) projects, resident management entities have created a large pool of expertise and trained workforce for these more ambitious enterprises. We recommend that resident management corporations qualify to participate in "Urban Homesteading" and

"Turning Problems Into Opportunities"

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other federal housing initiatives.

2) Training and Job Creation

In New York, Chicago, Los Angeles, Philadelphia, and other cities across the country, public housing tenant associations have expressed a great willingness to participate in site management, routine maintenance, and other economic ventures to create new resident employment opportunities. Training programs offered through both the U.S. Department of Housing and Urban Development and the Department of Labor should be targeted to provide greater opportunities for improved management capacity and job creation involving the residents of public housing.

3) Economic or Ceiling Rents

As expanded opportunities are provided for tenant employment, it is critical to reform the current rent payments system which mandates a flat 30% payment of aggregate family income. The present system provides a strong disincentive for working families and economic stability within low income public housing communities. This inequity should be changed with the implementation of economic or ceiling rents.

These comments are not meant to provide a conclusive list of the concerns of public housing resident management experts. I do hope that you will include resident management leadership such as Kimi Gray (Kenilworth-Parkside Resident Management Corporation), Berth Gilkey (Cochran Tenant Management Corporation), Mildred Hailey (Bromley-Heath Tenant Management Corporation), Irene Johnson (Leclaire Courts Resident Management Corporation) and our organization in the upcoming round of hearings on low income housing issues.

Thank you for providing this opportunity for comments on the work of the Housing Subcommittee. Please do not hesitate to contact us for any needed assistance or further information.

Sincerely,

David Caprara
Public Housing Resident
Management Demonstration

cc: Senator Alan Dixon
Resident Management Association
National Housing Task Force

NATIONAL CONGRESS
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October 2, 1987

The Honorable Alan Cranston
and
The Honorable Alphonse D'Amato
U. S. Senate
Subcommittee on Housing and
Urban Affairs
Washington, D.C. 20510

Dear Senators Cranston and D'Amato:

Thank you for contacting the National Congress for Community Economic Development (NCCED) to request ideas on developing a new national housing policy. We are delighted that the subcommittee is going to address the pressing national need of affordable housing.

NCCED and its membership, composed of over 165 community-based development organizations, think strongly the federal government has a major role to play in supporting affordable housing for millions of Americans. We also think that non-profit community-based housing development organizations are a critical national resource for producing affordable housing units throughout the U.S.

In developing a national housing policy, there are several themes which we encourage the committee to pursue. The first theme is that housing cannot be divorced from the context of the neighborhood/rural area where it is located. Policies and program are also needed for nurturing neighborhood revitalization such as human services, decent paying jobs, and a degree of local control of resources. Secondly, an affordable housing policy must insist on high quality housing that is affordable over a considerable period of time. Examples are replete of abandoned housing units/projects that do not meet the needs of the local community and provide inadequate housing shelter. Finally, there is a pressing need for affordable housing financing to be made on a permanent basis. The "start" and "stop" cycles of previous housing programs has caused havoc with the supply of low-income housing. We urge the subcommittee to explore programs and initiatives that provide long term sources of funding for housing production such as an endowment or quasi-government entity chartered by Congress but operating independently of federal agencies. The National Cooperative Bank and quasi-state housing and development programs serve as excellent models.

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and
The Honorable Alphonse D'Amato
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In terms of specific programs and initiatives, we hope that the committee will pay serious attention to the National Community Housing Partnership Program developed by the National Low-Income Housing Coalition. A special emphasis in the National Community Housing Partnership Program should be placed on building the capabilities of non-profit community-based housing development organizations to produce affordable housing. NCCED, the National Low-Income Housing Coalition, and a number of other national and local organizations are recommending that an additional "Title II on Capacity Building" be added to this legislation.

The purpose of this title would be to provide flexible funding to build the capacity of small housing organizations to engage in housing production. Support should be provided for activities ranging from staffing to organize tenants to planning to site acquisition to pre-development activities to project management. In order to receive funds, non-profit organizations should be required to demonstrate that they will be able to increase their production capability through measured criteria. As was stated earlier, we are recommending that funds be allocated through a national non-profit entity chartered by Congress that will be able to provide flexible resources in a timely manner with staff familiar with housing production. A state government and local government challenge grant provision should be developed since there have been an increasing number of innovative state and local government housing initiatives geared toward generating affordable housing production.

We welcome the opportunity to work with the subcommittee members and staff to pursue affordable housing objectives for low-income communities and individuals throughout the U.S.

Very truly yours,

Robert O. Zdenek

Robert O. Zdenek
President

ROZ/vqa

P.S.: We are enclosing a copy of the report of The Task Force on Community-Based Development, Community-Based Development: Investing in Renewal. The task force is composed of leading private funders.

NCBA
National Cooperative Business Association

October 5, 1987

The Honorable Alan Cranston
112 Senate Hart Office Building
Washington, D.C. 20510

Dear Senator Cranston:

On behalf of the National Cooperative Business Association, I appreciate this opportunity to offer ideas as you formulate the "next generation" of federal housing programs. I commend you for undertaking this important task and compliment you for inviting such broad participation in this creative process.

The National Cooperative Business Association (NCBA), founded in 1916 as the Cooperative League of the USA, is a national membership and trade association representing America's cooperative business community. NCBA's membership includes farm supply, agricultural marketing, insurance, banking, housing, health care, consumer goods and services, student, credit union, worker, fishery, rural electric and telephone, state associations and other types of cooperatives.

NCBA's diverse membership comprises four tiers of cooperative organizations: national, regional, state and local organizations. These tiers are represented in each of several membership sectors and personify the one in five Americans who belong to a cooperative.

NCBA's housing sector includes housing cooperatives and professional housing organizations committed to the development of cooperative housing. Several levels of organizational involvement are evidenced through the membership of such groups as the Cooperative Housing Foundation, the National Association of Housing Cooperatives, the Council of State Housing Agencies, the National Corporation for Housing Partnerships, the Massachusetts Cooperative Task Force, the New York Council of Cooperatives, and Greenbelt Cooperative Homes.

NCBA supports the development and expansion of cooperative business in the United States and in lesser developed countries; represents the cooperative business community before Congress, governmental bodies and other national and world organizations; and promotes international commerce, banking and joint ventures by and among the world's cooperatives. NCBA's housing program encourages the development and successful operation of housing cooperatives in the United States through legislative advocacy, education and training, development services and public relations work. In recent years, NCBA's housing program has emphasized senior and affordable cooperative housing development.

Representing America's Cooperative Business Community

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FEDERAL HOUSING POLICY AND COOPERATIVE HOUSING

NCBA believes that the federal government is primarily responsible for ensuring that all Americans have access to decent and affordable housing. We view the federal government's response to the nation's housing needs in recent years as seriously deficient.

To address today's critical shortage of affordable housing, we urge the Congress to adopt a strengthened federal housing policy which both preserves and expands the inventory of assisted housing. In achieving these objectives, we strongly recommend that opportunities for resident participation and control through cooperative and mutual housing structures be maximized.

We are not recommending a specific program structure for accomplishing these goals. A wide range of programs, rather than any single approach, will be needed to satisfy the diversity of housing needs. We do, however, recommend that the following elements be incorporated in any new program structure.

- Federal funding must be made available to support the preservation, new development, rehabilitation and ongoing operation of an adequate supply of affordable housing. State and local governments do not have sufficient resources to meet the growing need.

  Funding recipients should be given maximum flexibility to utilize federal resources in a manner most responsive to area needs. Approaches which make the most efficient use of federal subsidies, such as limited equity housing cooperatives, should be encouraged.

- The existing assisted housing stock should be preserved for extended low-income use. Financial and tax incentives should be offered to private owners of subsidized projects to encourage them to retain properties for low-income use or to sell to non-profit or tenant groups who will maintain the low-income character of the property.

Housing cooperatives and mutual housing associations should play a major role in the provision of affordable housing. For this to occur, however, cooperatives must be placed on at least equal footing legislatively with other housing forms. Too often, the hybrid nature of the cooperatives form, part "rental" and part "ownership," has been viewed as a disadvantage, rather than an inherent strength.

Federal housing programs should be structured to directly support cooperative and mutual housing development. Housing cooperatives and sponsoring groups should have direct access to funding, including subsidies where needed; financing; technical assistance and organizational support.

Below are some of the many reasons why cooperative housing should be a cornerstone of our federal housing policy:

- Cooperative ownership and control of housing has a stabilizing effect on communities.
- Cooperatives offer persons of modest means the opportunity for homeownership and the sense of control, pride and self-reliance homeownership fosters.
- Cooperative ownership offers residents security and protects them from displacement.
- Cooperatives benefit from a strong sense of community and democratic participation.
- Limited equity resale structures enable cooperatives to remain perpetually affordable to moderate and low income residents. Subsidies used to develop such properties are in effect permanent subsidies.
- Cooperatives eliminate the profit line, providing housing at the lowest possible cost.
- Cooperatives historically have had lower turnover rates and more responsible and involved residents. Lower vacancy rates, less vandalism, lower collection losses and lower maintenance costs translate to lower operating budgets and monthly costs to residents.
- Cooperatives often discourage leasing, increasing owner occupancy and and continuity of residency.
- Stable and responsible residents mean lower default rates in cooperatives. HUD's Section 213 mortgage insurance program for cooperatives has the lowest default rate of any of HUD's multifamily insurance programs.
- Cooperative homeowners have all the same tax benefits as single-family or condominium owners, including mortgage interest and real property tax deductions.
- Cooperative developments often attract other local subsidies. In many areas, cooperatives receive favorable tax treatment and other benefits from local governments, who restrict or forbid condominium development.
- Cooperatives are in many areas assessed as rental rather than ownership properties, resulting in lower real property taxes.

- Flexible financing structures which combine both blanket and share loans can result in lower down payments and monthly charges. The blanket mortgage permits mortgage assumptions, second mortgages and take-back financing which facilitates rental property conversion. The ability to secure additional underlying debt, pledging the property as collateral, avoids resident assessment.

I have attached a fact sheet which describes the legal and finance structure of housing cooperatives. In addition, it briefly describes variations of the cooperative structure which have evolved to serve special needs and income levels.

Again, thank you for this opportunity to express the views of the National Cooperative Business Association on federal housing policy and cooperative housing. If we can provide further information, please let us know.

Sincerely,

Barbara Thompson

Barbara J. Thompson
Vice President for Housing Development

BJT:emd

1023

COOPERATIVE HOUSING: THE FACTS

Legal Structure. Housing cooperatives are a form of multifamily homeownership. In a cooperative housing project, there are two ownership entities, the cooperative corporation and the corporation owners, commonly known as tenant-stockholders. The cooperative corporation owns or leases the project, including the land, dwelling units and common areas. The cooperative corporation in turn is owned by the tenant-stockholders, who by virtue of their stock ownership are entitled to live in a specific dwelling unit if their obligations to the cooperative are met.

A tenant-stockholder of a housing cooperative does not directly own a dwelling unit. The tenant-stockholder owns stock, sometimes called membership certificates or shares, in a corporation. Stock ownership carries with it the exclusive right to occupy a dwelling unit and to participate in the governance and operation of the property either as an elected board member or a voting stockholder.

The tenant-stockholder is a lessee as well as an owner of the corporation. The corporation leases the unit specified by the tenant-stockholder's stock to the tenant-stockholder through an occupancy agreement or proprietary lease. This contract between the corporation and the tenant-stockholder spells out the rights and obligations of the tenant-stockholder to the corporation and the corporation to the tenant-stockholder. Specifically, it gives the tenant-stockholder an exclusive right to occupy a unit, participate in the governance of the corporation, and receive tax benefits and equity increases in return for financial and personal support of the corporation.

Finance structure. A major distinction between cooperatives and condominiums is that cooperatives can use both underlying blanket mortgage financing and individual share loans. The cooperative corporation often finances the project by obtaining a project or blanket mortgage based on the property's rental value. As mortgagor, the cooperative is responsible for meeting this debt obligation, which is passed on to the tenant-stockholders as part of a monthly charge called a carrying fee. This monthly payment represents the tenant-stockholder's contribution toward the payment of principal and interest on the blanket mortgage, insurance, taxes and maintenance.

The purchase of the tenant-stockholder's interest in the cooperative and the accompanying occupancy rights can be financed with cooperative share loans. Share loans are loans made to the individual purchaser and secured by a pledge of the stock and an assignment of the occupancy agreement.

Variations on the Cooperative Structure. By modifying the basic legal and finance structures, a variety of different cooperative forms have been developed.

* A market rate cooperative sells stock at full market value in the original sale and permits a market rate of return on resales by tenant-stockholders.

* A limited-equity cooperative limits the return allowed when stock is sold. The amount of return permitted is determined by a formula established in the corporation's bylaws.

* A leasing cooperative leases the property from an investor on a long-term basis, sometimes with an option to buy. The residents operate the property as a cooperative.

* A mutual housing association is a non-profit corporation set up to develop, own and operate housing. Often the corporation is owned and controlled by the residents of the housing produced.

* An elderly housing cooperative has design and service features supportive of a senior residency.

* A subsidized cooperative has received some form of subsidy from a government or non-profit entity to lower the cost of the housing to the tenant-stockholders. Subsidized cooperatives generally are limited-equity cooperatives.

Housing for Older Americans: Recommendations of the National Council on the Aging and its National Institute of Senior Housing

I. A Decent Home for Every American

Although primarily concerned with the needs of the elderly, the National Council on the Aging and its National Institute of Senior Housing is committed to improving the housing lot of all of America's citizens. Accordingly, the primary objective in the area of housing and related matters in the post-Reagan years must be to fulfill the pledge of the Housing Act of 1949 of a decent home for every American. Decent housing for all is a reasonable and humane goal for the richest nation on the earth. It has been our goal for almost 40 years -- since the Housing Act of 1949. It is the Nation's shame that the promise and the goal have not been achieved, and that the attempt to fulfill that goal has never been given sufficient priority or appropriate funding. It is time that we take the goal and the pledge seriously.

It has been estimated that as of about 25 years ago, five million older people were living in "deficient" housing. Another recent estimate suggests that about 1.5 million units of Federally subsidized housing, or about 45 percent of the total, were occupied by persons 62 years of age, or over. Thus, with at least several million older people still needing appropriate housing, and with current Federal efforts for development largely restricted to funding of 12,000 units a year under the Section 202 direct loan program for the elderly and handicapped, the likelihood is that little or no dent is being made in the backlog. Compounding the problem is the fact that there is continuing deterioration of the housing stock, with the result that we are falling even further behind in meeting the needs of the elderly population, as well as that of the population at all age levels.

II. Implementing the Goal of a Decent Home for America's Elderly

A. Expansion of the Section 202 Direct Loan Program

Current Federal funding for housing for the elderly is limited largely to the Section 202 program at a minimal level of around 12,000 units for the past few years. Unfortunately, it appears at this writing that the Fiscal Year 1988 funding for the Section 202 program will be reduced to support only about 10,900 units (12,689 units were funded in Fiscal 1987). This level of funding is far below the approximate 30,000-unit level funded under the Section 202 program in Fiscal 1976, the first year of funding following the re-implementation of the program as provided by the Housing Act of 1974.

NCOA/NISH recommends a 30,000-unit program annually as a minimum acceptable level. Although this would be a substantial increase over recent years, we must recognize that even at this level, the goal of a decent home for every low and moderate income older citizen will still not be met.

In addition to increasing funding for the Section 202 program, careful consideration should be given in the immediate future to the sharp fall-off in applications for Section 202 which occurred in Fiscal Year 1987. The reason for the fall-off has not been explored, but such factors as continued concern over application requirements (i.e., the expense of forming Borrower corporations, purchasing land options, and developing the substantial amount of data required in submitting applications, "burn-out" as a result of failing to obtain fund reservations in the highly competitive selection process, tedious processing of applications, severe cost containment limitations, political considerations, etc.) may have contributed to the decrease. Clearly, something needs to be done to increase the volume of applications given the need and demand -- often characterized by waiting lists for admission to housing for the elderly of five years or more and the lack of suitable alternatives. NCOA/NISH recommends that the Congress initiates a GAO study of the 202 application process toward a report with recommendation for reform. The report should be timely enough to affect fiscal 1989 processing.

In its efforts to seek economies in the development cost of subsidized housing, the Administration has imposed rather severe cost containment requirements. While some such economies may be warranted, there are many valid complaints among the sponsors and owners of Section 202 and projects that "cost containment" has been excessive and has resulted in unwarranted program cutbacks in housing design and services.

The Congress should mandate an intensive study of the present cost containment measures in force for subsidized housing programs so that appropriate changes can be introduced for implementation in fiscal year 1989. Without a halt to these bogus cost containment initiatives, many projects may well be identified as having been developed with planned obsolescence in mind.

B. Make the Congregate Housing Services Program (CHSP) a Permanent and Expanded Program.

The Congregate Housing Services Program(CHSP) has proven its value as a congressionally mandated demonstration program. Even though the CHSP has been limited to a very small number of participants, it has demonstrated its effectiveness in meeting the needs of residents and allowing them to remain living in the community for as long as possible. Legislation is needed to make the CHSP a permanent, rather than a demonstration program. Authority also needs to be provided so that thousands -- perhaps millions -- of older persons could receive the various kinds of services made available under the program to enable them to live in relative independence in Section 202 housing and other senior housing. It should be noted that the Select Committee on Aging of the House of Representatives has described the CHSP "as a model of service delivery that is progressive, cost-effective, and, most of all, humane." The CHSP should be amended to encourage State participation and the funding levels be increased in order to reach a broader spectrum of older residents. Such an expanded program would be a response to concerns raised by a recent survey conducted by the National Center of Health Statistics. That survey found that three of five persons entering nursing homes move into such facilities because their families no longer have the resources or energy to care for them and not because of medical reasons.

C. Enact Legislation to Fund Development of Assisted (Personal Care) Housing

There is a growing recognition and support for the funding and development of assisted or care-type housing. These facilities would be intended for older people, who, while not requiring nursing or medical care on a regular basis, are having difficulty in living fully independently. They may need help with housekeeping, cooking, shopping, dressing, bathing, and other activities of daily living. These are persons whose needs are not met in fully independent housing, but who do not require daily, or regular nursing or medical care.

The need for assisted housing should not be used as justification for a reduction of support for independent housing as developed under Section 202. It is urged that Congress fund a substantial number of assisted housing projects, financed through direct loans, with subsidized occupancy and personal care and other services available to its residents.

E. Bar Prepayment of Loans and Mortgages on Housing for the Elderly.

There is a real need to assure not only an increasing supply of housing designed for occupancy by the elderly, but that the housing already developed for their occupancy remains available to them. It is particularly appropriate that housing developed for the elderly with Federal assistance not be removed from serving that purpose by the prepayment of Federal loans in the case of the Section 202 program, or by the prepayment of FHA-insured mortgages on housing specially designed for the elderly. Legislation should be enacted in the 100th Congress to assure that the facilities constructed or rehabilitated for occupancy by the elderly -- especially the low and moderate income elderly --

continue to be used to meet their needs for the full term of the original loan or mortgage or subsidy agreement, whichever is the longest.

F. Extension or Replacement for Section 8 Housing Assistance Payments Program.

The 20-year terms of Section 8 housing assistance payments contracts will start expiring in the 1990's. In the absence of extensions of the present contracts through legislation, there is potential for a considerable reduction in the supply of decent housing for the low-and-moderate-income elderly, even while the need expands. Unless subsidies continue to be available, many of the low-income elderly and handicapped could not afford to pay the increased rents they would have to pay (let alone any increases in market rents). The result probably would be mass evictions without suitable replacement housing. The homeless problem already is a massive one. It is likely to get much worse in the absence of an extension of the Section 8 program or a suitable new program to replace it. NCOA/NISH recommends appropriate Congressional action to extend Section 8 contracts for another 20 years and/or to ensure sufficient replacement housing at comparable rents in the absence of such an extension.

G. Expansion of Eligibility for Subsidized Occupancy

Many older people of very modest incomes find themselves ineligible for subsidies that would help them pay market rents in their communities. When the Section 8 Housing Assistance Payments Program began, eligibility for Section 8 assistance was available for persons with incomes of up to 80 percent of area median income. While limiting eligibility to a substantial degree, a significant number of low income people were able to obtain occupancy in decent housing through this subsidy mechanism, which they would not have been able to afford otherwise, since rents in the private, unsubsidized market were beyond their ability to pay. Unfortunately, changes in the Section 8 program were enacted to limit eligibility generally to those with incomes no greater than 50 percent of the median income for the area. This change removed many low income people from the ranks of the Section 8 eligibles and subjected them to finding whatever housing was available in the community, often at rents far beyond reasonable rent-to-income ratios. Recently, this problem was recognized in H.R. 4, the House-passed housing authorization bill, in which provision was made to permit up to 25 percent of the families assisted under Section 8 to be in the 50-80 percent of area median incomes. The Senate, in the meantime, has approved a provision retaining the five percent limit on tenants with incomes between 50 and 80 percent but would require HUD to permit the five percent limit to be met on an aggregate basis, rather than placing a five percent limit on each individual project. What the final outcome of these provisions is not known at this time.

NCOA/NISH recommends that the Section 8 program be amended to permit eligibility for those with incomes no higher than 80 percent of area median income.

H. Alternative Housing for the Elderly

In addition to specially designed multi-family housing for the elderly, there are other types of housing and living arrangements which have considerable potential for helping to resolve the housing needs of the Nation's elderly. NCOA/NISH recommends that financial incentives be provided for the development of these alternatives, including, among others, shared housing, accessory apartments, and ECHO housing. These living arrangements are important options that enable older persons to continue to live in the community for as long as possible.

I. User-Friendly Housing

Many older people find that their homes are not designed to accommodate to their changing physical conditions. Shelves become too high and too deep to reach; counters too high, back burners too far to reach, electric plugs too low, stairs too hard to climb, etc.

NCOA/NISH recommends that Congress require HUD to invest in the design and development of environments that meet the needs of older residents.

J. Assistant Secretary of Housing for the Elderly

Federal assistance to help finance the development of housing specially designed for the elderly has been in existence since the Housing Act of 1956, when such housing was authorized under the Public Housing Program. Since then, housing programs for the elderly have expanded to the point where billions of dollars have been invested in housing for older people with about 1.5 million units of subsidized housing (not necessarily specially designed for older people) occupied by senior citizens. Given this investment, the hundreds of thousands of units designed for them, and the increase in the number of housing programs focusing on the elderly, it is long overdue that the Department of Housing and Urban Development have at its top level an Assistant Secretary of Housing for Senior Citizens to coordinate the various programs, represent the Department as the Secretary's spokesperson for the elderly and to advise and consult with the Secretary and the Congress on all matters related to older people and their housing needs.

K. Housing for the Next Generation of Older People

The huge bulk of housing specially designed for the elderly in this country has been developed over the past 25 years. With the passage of a quarter of a century, the housing to be constructed for occupancy by the next several generations of older people should be designed in recognition of the fact that their needs and preferences probably will be quite different in many respects from those of the older people who have been the occupants of such housing in the past several decades. These later generations of senior citizens are likely to be better educated, even more involved politically than now, healthier, more independent, and less willing to accept the dictates of the rest of society. They may question the kinds of housing offered to them and be dissatisfied with the housing built in these past several decades. In short, older people may be so different in terms of how they look at their housing and living arrangements that we need to plan now to conduct in depth research on their needs and preferences before we add many more billions to the existing investment on their behalf.

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STATEMENT
FOR
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

Without a substantial commitment of federal funds to low income housing, we can expect torrential homelessness, starting in the urban areas and expanding to the suburbs. Condominium conversion, sale and demolition of public housing, the loss of assisted units to "buy-outs" and the end of section 8 contracts are all factors that will mean a loss of several million low income units over the next decade. New York, where public housing remains sound, has over 5,000 homeless families, 20 percent doubling up in public housing and an 18 year waiting list for section 8 and public housing. Although New York is struggling valiantly to commit funds to local housing programs, at best 5,000 new low income units can be produced annually. New York State has estimated a need for 665,000 new or rehabilitated apartments. The problems keeps growing.

The New York Housing Conference would like to see a revival of section 8 and new public housing. However, political reality seems to eliminate the reinstatement of these "tried and true" programs. Therefore, we would advocate the following alternatives to be considered by Congress:

Capital Grants or Deferred Payment Loan

Capital construction grants or deferred payment loans to nonprofit agencies or profit motivated partnerships, which would own and operate apartments for low and moderate income families. Rents would cover maintenance and operations on buildings which would be virtually debt free. Localities would set cost limits, income limits and rent-income ratios, thereby accounting for regional differences. Similarly rent increases would be determined by local housing agencies.

However, at least thirty percent of the units in each locality would be reserved for very low income occupants. Grants could cover up to 100 percent of acquisition, new construction, substantial rehabilitation or moderate renovation.

STATEMENT FOR SENATE SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS
Page -2-

Tax Credits

The Low Income Tax Credit program established in the 1986 Tax Reform Act, should be revised to work in tandem with the capital construction program outlined above.

Certificates as an Entitlement

The Section 8 Cerfiticate Program should be vastly expanded to an entitlement program. Even in debt free buildings many low income families cannot afford to pay operating costs. In New York it costs $300 - $350 a month to operate a building. Families earning less than $12,000 need additional subsidies even to pay for operating costs in their buildings. If utility costs or other costs increase, the certificate program becomes all the more important. Expanding the certificate program to an entitlement program sounds expensive. However, as a measure to prevent homelessness and future crisis, the certificate program is extremely cost-effective. By spending $3,500 a unit a year, it might be possible to avoid spending in excess of $20,000 annually for a homeless family. One way to minimize the budget impact would be to estimate each year's expenses, rather than calculating the multiyear expense for a specific unit, and placing that enlarged number in the first year budget.

New York Housing Conference
Clara Fox and Duncan Elder
Co-Chairs

Carol Lamberg, Staff Director

**Russellville
Housing Authority
Incorporated**

P.O. Box 966
Russellville, AL 35653
205-332-1561

July 31, 1987

Senate Housing Subcommittee
Room 535
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Committee Members:

As a member of the Public Housing Authorities Directors Association, I thank you for the opportunity to share my views on needed legislation. These should include the following:

1. Minimum Rents Inclusion
2. Ceiling Rents Reinstatement
3. Grant Funding of Agencies on an equitable basis
4. Further Deregulation of PHA's

Still better, Deputy Assistant Secretary James E. Baugh of HUD, has formulated an idea he entitles defederalization of rents. Perhaps it would behoove you to have Mr. Baugh expound on his concept. I certainly would support what I have heard of his idea to date.

Thanks again.

Sincerely,

David W. Madden
Executive Director

pb

Copies to: PHA/DA
James E. Baugh

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David W. Madden - EXECUTIVE DIRECTOR

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Suggestions for Changes in Federal Housing
and Community Development Legislation

A. Specific Issues Needing to be Addressed

1. Increased Program Flexibility: One of the major strengths of the CDBG program is the flexibility it provides local governments in meeting the needs of their low-income populations. It is essential that this flexibility be retained and even increased in order for the program to truly adapt to varying local circumstances.

2. Home Ownership: In Sacramento County and throughout the nation, low-income residents are increasingly unable to become homeowners because of the disproportional increases in housing costs. Funds need to be made available in the form of deferred, low or no interest loans to move low-income renter families into home ownership. We are especially interested in being able as a government agency, to purchase boarded units, rehabilitate them, and then make them available to low-income families.

3. Rehabilitation Funding: Also to address critical housing affordability issues, jurisdictions need an infusion of funds to provide housing rehabilitation assistance. In our area, substantial numbers of units, both rental and owner-occupied, need rehabilitation; the majority are currently occupied by low-income residents few of whom as renters can afford rent increases or as owners can afford housing expense increases. In order to conserve this housing in a safe and liveable condition, we need to offer very low or no interest, deferred loans to cover the full cost of rehabilitation. Currently our grant is too small to provide adequate funds to rehabilitate substantial numbers of units.

4. Homeless Programs: Great pressure has been put on the CDBG program to address homelessness especially since the demise of revenue sharing and reductions in the Community Services Block Grant. The flexibility of CDBG has made it an excellent funding source to provide emergency shelters for homelessness caused by a variety of factors and to provide programs to help homeless people obtain permanent shelters. However, the limit on public services and the dearth of funds have severely constrained the impact of these programs.

5. Capital Improvements: Particularly in the City of Sacramento, large residential areas are in need of substantial infrastructure improvements. These older areas were developed without adequate requirements for provision of curbs, gutters, sidewalks, drainage, and fire protection and were later annexed to the City. They are now occupied by very low to low income residents who cannot afford special assessment district fees, the only other mechanism for infrastructure construction.

6. Fair Housing: Fair housing can be funded two ways: as a public service under Section 570.201(e), or as an administrative cost under Section 570.206(c). There are disadvantages with both approaches. Under the public service category, fair housing is subject to the 15% public service limit, an extremely competitive category, and the program must primarily assist low-income people. To be effective, a fair housing program should decide how to pursue complaints based on an analysis of the case, not the income level of the client. As an administrative cost, fair housing would be subject to the 20% limit. Fair housing should be made an eligible activity under a separate section of the regulations which would not be subject to either the 15% or 20% limits.

7. Long Term Financial Commitments: The current year to year authorization/funding cycle causes unnecessary complexity, uncertainty and inefficiency at the local administrative level. To avoid these problems and provide a sound basis for local planning, federal legislation should provide greater stability in local funding. Some means to accomplish this include, but are not limited to, three year or longer program authorizations, grants indexing to account for inflation, and hold harmless provisions.

8. Automatic Administrative Transfer of Unused HAP Contract Budget Authority for Section 8 Opt Outs to the Local PHA: Section 8 opt outs currently result in a net reduction in subsidized units because replacement units are funded with budget and annual contributions contract authority authorized for the current year. Another problem from the local PHA viewpoint is complexity and time delays associated with applying for and receiving discretionary replacement units from HUD Central. This causes confusion bordering on panic for low income renter families fearful of being displaced.

As a practical matter it seems unlikely that the Federal Government would deny continued assistance to low income families victimized by opt outs. This being the case it would be more straightforward and far more efficient to allow the direct administrative transfer of tenant subsidies from the opt out project to the local PHA. Such transfers should be for the remaining term of the HAP contract for the opt out project in a sufficient amount to fund the pre-existing unit mix.

B. New Housing Policy Concepts

1. Replacement of the Performance Funding System (PFS) for Public Housing with a Subsidy Standard Geared to Local Rental Market Conditions: The PFS is based on an abstract statistical calculation which is difficult for local PHAs to relate to and which by most accounts is not capable of producing accurate projections of PHA operating costs. This system should be replaced by a subsidy mechanism which is more directly related to local rental market conditions and at the same time provides incentives for efficient local program operations. An outline of such a system follows:

   a. HUD would establish a fixed subsidy amount by bedroom size for a particular area based on the HUD Fair Market Rent (FMR). The subsidy amount would essentially be the FMR adjusted for differences in debt service costs, utility costs, and a tenant rent factor which would generally represent the average amount that subsidized renters typically pay for subsidized units of the same bedroom size in the general market area under all subsidy programs.

b. A PHA would be entitled to claim the above fixed subsidy amount for each unit month of occupancy through a process similar to that used to make payments to private landlords under the Section 8 Existing Housing Assistance Payments Program. HUD would continue to monitor for such things as compliance with income and occupancy criteria, unit conditions, reserves, etc.

c. PHAs able to operate successfully within the subsidy level described above would benefit from simplified record keeping and reporting requirements and would be allowed to use surplus revenues for other low income housing related purposes.

d. PHA's not able to operate successfully would be subject to more detailed record keeping and reporting requirements and would be required to develop approved management plans for correction of deficiencies within a reasonable time.

2. COMBINED HOUSING/CD BLOCK GRANT (HCDBG): Housing and CDBG funds would be combined into a single HCDBG grant to local jurisdictions made on a needs based formula basis. The grant would replace and hopefully exceed amounts currently allocated by the federal government for the CDBG program and the various housing production and related development programs, i.e., Section 312, rental rehabilitation, HODAG, public housing construction, Section 202, Section 8 construction/rehabilitation, etc.

First priority for use of HCDBG funds would be the provision of low income rental housing. Jurisdictions with high housing costs would be required to spend a high percentage of their HCDBGs to meet low income rental housing needs. Jurisdictions with lower housing costs would be allowed, not required, to use a greater portion of their HCDBGs for housing programs oriented towards low/moderate income home owners, neighborhood improvement, economic development and related activities.

The allowable mix between low income rental housing and other activities would be determined by a housing affordability index determined statistically for each jurisdiction. The index would be sensitive to both the price of available rental housing and the ability of the population to afford such housing as determined by such things as wage rates, unemployment rates, costs of other necessities, etc.

The allocation formula would encourage and reward local efforts to foster development of affordable housing through a variety of means, not just direct construction or rent subsidies. As a general rule local government tends to be less sensitive to low income rental housing needs than to neighborhood improvement, economic development and home owner housing issues. The combined grant approach with a priority for rental housing would create a powerful incentive for local jurisdictions to weigh these needs more heavily in their planning and land use decisions. Jurisdictions which exercise their discretionary powers in such a way as to increase affordability would be rewarded with greater flexibility in the use of their HCDBGs. Those with poor affordability would be required to take direct action to correct this situation.

Since high housing costs tend to be associated with high economic growth and job creation, and vice versa, the allocation rule would tend to allocate federal resources in accordance with widely held national priorities. In high growth low affordability areas the formula would dictate a local strategy of bringing people to the jobs by requiring that more resources be spent for low income rental housing to improve access of needy families to economic opportunities. In areas of economic decline and a relative surplus of low cost housing the flexibility would exist to pursue a strategy of bringing jobs to the people by allowing greater use of funds for economic development.

3. LOCAL FLEXIBILITY TO COMMIT TENANT BASED RENT SUBSIDIES TO INDIVIDUAL PROJECTS: As with the Section 8 Existing and Voucher programs, local governments would annually receive an increment of funding for housing subsidies determined through a needs based formula similar to that used to allocate HUD budget authority between regions. As with the Housing Voucher Program, each jurisdiction's entitlement would be expressed in terms of dollars, not units. Jurisdictions able to achieve a low subsidy cost per unit would be able to subsidize more units.

Unlike current programs jurisdictions would be authorized and encouraged to link rent subsidies with specific housing programs and projects in an effort to decrease subsidy costs and/or increase coordination with support services. Examples include residential hotels, group quarters, projects financed with HCDBG funds (described above) or tax credits, and programs that link housing with other services, such as independent living skills training for the handicapped, job training for the unemployed, or provide emergency assistance to certain groups such as battered women people who have lost their jobs through no fault of their own, etc.

The minimum term of the local rent subsidy entitlement would be five years. However, to permit long term local commitments to specific projects, a jurisdiction would be permitted to commit a certain fraction of it's total multi-year entitlement to projects with subsidy commitments of between six and ten years and between eleven and fifteen years.

The basic rules for tenant income eligibility and rent payments would be the same as current subsidy programs. Payments from the rent subsidy fund for designated development projects would be based on the Section 8 Fair Market Rents (FMRs) for existing units regardless of whether it is a new construction or rehabilitation project. However, additional subsidies could be provided from other sources to reduce rents to established FMRs.

Rent subsidy funds would be allocated according to priorities established in the local Housing Assistance Plan (HAP).

A locally controlled flexible subsidy approach would foster creativity in the development of programs to meet highest priority local needs. It avoids the costly, cumbersome and time consuming exercise of establishing comprehensive national standards applicable to a wide variety of local situations. By creating a local awareness of susidy costs for various types of projects and providing incentives for meeting those costs, it would encourage greater efficiency and economy in the allocation of scarce subsidy resources.

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ISSUES & ACTION

WORLD CITY / SOUTHERN CALIFORNIA

SERIES I

HOUSING ISSUE PAPER

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
July, 1987

BACKGROUND:

We are now at a critical juncture in terms of national, as well as regional housing policy. Both will be affected by the decisions that will be made at the national level. The upcoming national discussion therefore demands our input. This input, in turn, should be developed at the regional level with our understanding of our region's housing situation in mind.

THE NATIONAL ISSUES:

Over the past six years, the federal government has begun to move away from the traditional housing policy, which was established during the Roosevelt and Truman administrations. This national housing policy was aimed at providing adequate housing for all income levels in the society through the establishment of readily available mortgage financing for middle income strata, and subsidies for those with less income. Even more importantly, conditions underlying the viability of this policy began to evaporate during the 1970's.

The middle income policy worked well and led to the suburbanization and high level of home ownership we now enjoy. It was based upon the establishment of credit through the FHA and VA (for Veterans), as well as savings & loan associations primarily dedicated to housing finance. This edifice began to crumble with the high inflation and interest rates of the 1970's. This financial instability led to a crisis in the savings & loan industry, since savings had to be deposited at high rates of interest, often outside savings & loans, in order to avoid erosion in value. Quickly following on this development was the partial deregulation of savings & loans and banks. This meant that mortgage rates now moved with the rates in the world money markets generally and were no longer "insulated" by special restrictions on S&L's.

These financial developments led not only to higher housing costs for middle income households, but also undermined the provision of rental housing for lower income housing. Contrary to popular perceptions, the great bulk of rental (and ownership) housing for lower income households is

ISSUES & ACTION

Housing Issue Paper (cont.) 7/87

provided by the private market without the benefit of direct government subsidy. When interest rates rose, they created a new cost structure for rental housing. Landlords now pay more interest (and "opportunity cost") as a result, and pass it on to tenants in the form of higher rents. This has led to a continuing deterioration of the number of units that can be provided to lower income households. The effect of this deteriorption is greater than the effect of any federal government withdrawal from subsidy programs., In short, it increases the need for subsidies.

Finally, the federal government is moving from a policy of subsidy through programs such as public housing, new private construction of housing whose rents will be subsidized, and rental assistance to households that is related to the unit they will occupy, to a policy of "mobile" subsidies to households and the possible sale of public housing to the tenants. It is hoped that these mobile subsidies, in the form of housing vouchers, will be more cost-effective than the older programs that were more keyed to units than to people.

Whether this new federal approach will blossom into a full-fledged policy, or whether a new housing policy for the 1990's will instead be based on a different approach or a combination, will depend on the discussion that will occur over the next few months.

SCAG must be involved in this discussion.

Our starting point should be support for positions that will lead to a reduction to manageable proportions of both the middle income and lower income housing problem. This means lower interest rates and available mortgage credit. Without this precondition, middle income housing becomes a problem when it need not be, and lower income housing becomes a problem of unmanageable proportions.

Those interested in achieving, or recapturing, an hospitable financial environment for housing should be aware that inflation causes the high interest rates that make this impossible. Support for other policies that may lead to inflation therefore has a disproportionately deleterious effect on housing.

REGIONAL HOUSING POLICY:

Regional housing policy must contain two components: our region's view of what national housing policy should be and our region's policy with regard to our own local conditions and needs. The former is discussed above.

ISSUES & ACTION

Housing Issue Paper (cont.) 7/87

Regional housing policy could be built around the following issue areas, as outlined in the recent SCAG Regional Housing Strategies Paper:

- Quantity/Affordability
- Distribution
- Equal Access
- Quality
- Tenure

We have already discussed the first issue area as part of national policy, above. The outcome at that level will be more important than any other factor in this issue area. There are, however, issues we must raise at this level with regard to permitting requirements, development fees and exactions, and the provision of infrastructure. These are issues we must solve at the regional level. They will not be addressed in Washington in sufficient detail to be meaningful.
Part, but not all, of the most dire consequences of inadequate policy in this area is the homelessness we see around us. Quantity and Affordability are two sides of the same coin. This must be kept in mind if we are to solve this problem.

Housing distribution falls under the particular purview of SCAG. SCAG must identify the distribution of current and future housing need for each income level by jurisdiction in the Regional Housing Allocation Model, mandated by state law. Work on the 1988 RHAM is already underway. We hope to include Job/Housing balance, as well as more traditional distributive measures as part of this RHAM.

SCAG could fulfill a valuable monitoring role in assuring that national policy with regard to equal access to housing is being carried out. Failure in this are would frustrate the aims in every other area. One needs only to observe the housing controversies in other regions to see how fortunate we are to have gone beyond an exclusive focus on ethnic aspects of housing distribution that still haunt these other regions.

Quality will become a larger issue simply as a result of the rapid aging of the housing stock in this region. We are no longer a "new" region, and must therefore start thinking about preservation, rehabilitation, code enforcement, and other issues that, until now, were more of a concern in the older regions of the country.

ISSUES & ACTION

Housing Issue Paper (cont.) 7/87

Finally, tenure will also loom larger as an issue as before. Half of this region's households are renter households vs. only about 1/3 for the nation. The trend here has been toward an even higher proportion of renters as the middle income problems, outlined above, have become more severe. It is important to understand that this trend is exactly in the opposite direction from where we should be going. The SCAG-87 Baseline work and our work on the Housing Implications of Migration both show that the demand in the future will shift toward homeownership and away from rentals. This is based upon the age and other demographic characteristics of the future population of the region, not upon a value judgment by us as to the desirability of homeownership.

#1050

SOME PROPOSALS FOR U.S. HOUSING POLICY
FROM CHAPTER 9 RETHINKING RENTAL HOUSING

BY JOHN I. GILDERBLOOM
CENTER FOR PUBLIC POLICY
UNIVERSITY OF HOUSTON

AND

RICHARD APPELBAUM
UNIVERSITY OF CALIFORNIA, SANTA BARBARA

In this Chapter we examine the potential role of the federal government in directly promoting programs aimed at low and moderate income households. Drawing heavily on the work of a national task force on housing policy,[1] we offer an approach which fundamentally rethinks the ways in which housing is produced, allocated, and consumed in the United States. This rethinking takes as a point of departure the goal originally established by the National Housing Act of 1949, "a decent home and a suitable living environment for every American family." In the proposed Program, this commitment would be expanded into a legal declaration that every American household has the right to housing which is decent, safe, sanitary, affordable, compatible with resident needs and under democratic resident control. *Adequate and affordable housing would thereby become a uni-*

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[1] This Chapter is based on a National Comprehensive Housing Program that was drafted over a three-year period by the members of a national task force on housing policy, working under the auspices of The Institute for Policy Studies' *Alternative Program for America* Project (see Appelbaum *et al*, 1986). Task force members include Emily Paradise Achtenberg, Richard P. Appelbaum, John D. Atlas, Art Collings, Peter Dreier, Bob Goodman, Chester Hartman, Jackie Leavitt, Dan Lindheim, Peter Marcuse, Christine Minnehan, Carole Selter Norris, Mike Rawson, Florence Roisman, Joel Rubenzahl, and Michael Stone. Richard Appelbaum took overall responsibility for final drafting of the Program, although key components were initially drafted by other Task Force members, in particular Emily Achtenberg, Peter Dreier, Chester Hartman, Jackie Leavitt, Peter Marcuse, Christine Minahan, Carole Norris, and Michael Stone. The task force was funded by grants from the Shalan Foundation, Sunflower Foundation, and Seed Fund. The version in this Chapter departs in some significant ways from the original Program, and is of course the full responsibility of the authors of the present volume.

versal national entitlement: all citizens would have the right to adequate housing at an affordable price. Such housing would be secure with respect to tenure; permit locational choice; and respect the special housing problems of women, minorities, and the disabled. The attainment of such housing would become a national goal of the highest order, to which substantial public resources would be devoted. In order to achieve this goal, the Program would provide that local, state, and federal governments have a responsiblity to use their powers to meet the housing needs of all segments of the community.

Throughout this book we have sought to demonstrate that the market economy has failed to provide adequate housing to those who need it most in either of its two principal streams: private ownership or rentals. The Program would therefore establish that alternative forms of housing allocation and tenure must be implemented for a significant portion of the housing stock. We term this portion *the third stream of community-based housing*. It would exist alongside the existing two streams, to serve the needs of the growing numbers of households who are ill-served by the marketplace. By *community-based housing* we simply mean housing that is non-profit, and is produced and operated according to the principles of the national housing goal. There are already many examples of such housing, of which the two most familiar are existing public housing and cooperative housing with resale price controls. Other examples include university student and faculty housing, military housing, and in general any housing owned by a non-profit or governmental entity. The principal difference among these forms of such housing lies in the degree of title to the unit. In cooperative housing, residents are considered to be tenant-owners, while in other forms they are regarded as solely as tenants. Tenant-owners are permitted some investment stake in their unit, while pure tenants are not. Other differences may have to do with tenants' rights (for example, modifying one's unit, or subletting), management style, and security of tenure. Under the proposed Program, however, tenants in *all* community-based housing forms would be guaranteed the rights ordinarily associated with ownership, as well as full protections against eviction, involuntary displacement, or other threats to secure tenure.

In exchange for these rights, tenants in community-based housing would forego the right to resell their housing at a speculative profit. The role of profit in community-based housing would be eliminated over time, substituting instead the basic principle of community control. This would apply not only to the production, financing, ownership, and sale of housing, but to decision-making in the housing sphere in general. These guarantees need not entail centralization of housing programs in a federal bureaucracy. The federal government's role would be limited to setting standards and minimal requirements, providing financing, and assuring enforcement. Administration would be local.

Community-based housing would be created through a series of mechanisms which:

- produce significant amounts of new and substantially rehabilitated housing for community-based ownership;

- actively promote the transfer of existing privately-owned rental housing to the community-based sector, while encouraging the voluntary conversion of private homes to social ownership through fostering opportunities for homeownership without speculation;

- mandate the conservation, upgrading, and general enhancement of existing public and subsidized units; and

- assure residential rescurity in the remaining private rental housing.

Each of these mechanisms would be embodied in a separate Act (reviewed below, following the discussion of short-term measures). Localities would be required to develop and implement plans for the creation of affordable, community-based housing by utilizing a combination of strategies, taking into account specific local needs and market conditions. Federal funds would be provided for a variety of programs that could be designed at the local level to accomplish these objectives, consistent with federal standards and specified national housing goals. The Program would also call for a variety of tax and financing measures intended to enhance the growth of community-based housing sector.

Although much of the Program would not be attainable in the immediate future, many of its starting points could be implemented today. Indeed, some components are based on initiatives and experiments already being carried out in Sweden as well as other parts of Europe and America, albeit in a limited way. Building upon these examples, the Program seeks to be responsive to current conditions as well as supportive of broader changes.

We therefore begin with a consideration of some short-term measures which might constitute an interim bridge to the more radical, long-term components. These proposals are designed to alleviate some of the immediate difficulties confronted by tenants and other low- and moderate-income households, although they do not address the root causes of the problem. They are moderate measures that are consistent with past approaches to the housing problem.

Short-Term Proposals

Tax Measures

Although parts of the Internal Revenue Code are ostensibly intended to encourage productive investment in housing, in fact as we have seen they promote speculation, resulting in higher prices and over-consumption of housing. The present tax system contributes materially to inflation in rents and prices, while costing the Treasury billions of dollars annually in revenues lost to income tax deductions and other loopholes.

The overall goal of any progressive tax reform measure is to promote community housing goals, end speculation in housing, and redirect resources into productive housing investment in the non-profit sector. A secondary objective is to render the tax system more progressive, through eliminating measures which redistribute wealth upwards. Finally, to the extent that tax reform generates increased public revenues, they could be used to finance the long-term community housing programs proposed below. While these reform measures will not by themselves generate sufficient revenues to fund the entire housing program, they do have the potential of recapturing tens of billions of dollars lost to tax loopholes.

The *homeowner deduction* for mortgage interest and property taxes cost the U.S. Treasury an estimated $70 billion in 1986. Allowing homeowners to deduct mortgage interest and property taxes is extremely costly, while contributing to overconsumption and inflation in housing. Furthermore, homeowner deductions almost entirely benefit upper income owners, both because homeownership is in part a function of income, and because those homeowners who do in fact itemize deductions fall almost entirely into the highest tax brackets. Only one-quarter of all households claim the homeowner deduction, while 60 percent of all benefits accrue to the top 10 percent of the income distribution.

On the other hand, it is clear that the homeowner tax deduction enjoys considerable popularity, and is widely if (in our view) incorrectly perceived as being of general benefit to homeowners. In the short term, therefore, several measures are possible which would extend the benefits of this deduction to all homeowners, reduce its contribution to inflation and overconsumption of housing, and generate some additional tax revenues by reducing the overall level of tax expenditure.

As a first step, the homeowner deduction on *second homes* (such as vacation homes) could be eliminated. In the somewhat longer term, however, the homeowner deduction could be replaced with a *tax credit and cap*. This would make it available to the large majority of homeowners who do not itemize deductions, since tax credits are claimed directly on the 1040 form. The credit would be set at a rate equivalent to the tax bracket of middle income homeowners--around 25 percent prior to the 1986 Tax Reform Act. That is, 25 percent of interest and property tax payments could be used to directly offset other tax liabilities, regardless of the taxpayers' income tax bracket. A cap would be set on the amount of credit that could be claimed, based on median home prices, interest rates, and property taxes in the local housing market. Such an interim limitation would not generate large amounts of revenue, since at the same time it will extend tax benefits to a much larger number of households than presently claim them. It would, however, reduce housing demand at the top end, and thus have a dampening effect on inflation.

A second set of tax reform measures would address the problem of *depreciation allowances* for rental property. While the costs of maintaining rental property are rightfully capitalized as ordinary business expenses, fully depreciating the property's value over 15-18 years (or, under accelerated depreciation, writing off 46 percent in the first five years) provides a windfall to the owners of rental property, is costly to the U.S. Treasury, and encourages the rapid turnover of rental property as its short-term benefits as a tax shelter are exhausted. Depreciation thus encourages rental housing to be regarded as another short-term component in an investment portfolio, to be bought and sold according to the conditions of the capital markets. This is perhaps one reason why there has been a trend towards greater professionalization of rental housing ownership in recent years.

While the 1985 Tax Reform Act will partially address this problem by extending the depreciation period and reducing acceleration (see Chapter 4), we feel the Act does not go far enough. We propose the following measures. As a first step, all accelerated depreciation for rental housing should be eliminated. As an interim measure, ordinary (straight line) depreciation could be extended to 30 years, and its availability made contingent on certified code compliance and demonstrated evidence of adequate maintenance. In the long run, all rental housing depreciation allowances for the original cost basis could be eliminated, although provision would also be made for depreciating capital improvements or deducting the cost of a replacement reserve. While there will undoubtedly be some reduction in private rental construction, the federal revenue savings resulting from such measures could fund offsetting community-based housing construction. The elimination of the depreciation allowance would remove a major incentive for speculative and inflationary trading in the existing private rental housing stock.

A third set of reform measures concerns capital gains and anti-speculation taxation. It makes little economic sense to give preferred treatment to capital gains realized upon the sale of land or housing. Capital gains taxation, like the depreciation allowance, is intended to encourage productive investment by reducing the tax liability of profits that are earned as a result of such investment. In the case of housing, however, it is difficult to argue that profits from sales result from such productive investment in the ordinary sense of the word. Rather, in most cases profits result from inflation alone--particularly inflation in the value of land.

In the long run, therefore, capital gains preference for income from the sale of rental housing could be replaced by a *windfall profits tax* on all sales.[2] As an interim measure, local *anti-speculation or deed transfer taxes* could be encouraged. Such taxes, which have been adopted by some localities, have tax rates which are inversely graduated according to the length of holding. For example, the gain on property held less than one year might be taxed at 95 percent, with the rate declining by 5 percent per year through the tenth year, and 2 percent per year thereafter, eventually levelling off at 10 percent for property held longer than 30 years. Such a tax would likely be politically popular, particularly if sales or profits below a minimal amount were exempted. Such a tax would have the advantages of raising revenues while discouraging speculation; this, in turn, would help cool off overheated housing markets, stabilizing neighborhoods threatened by rapid inflation.

Finally, there are a number of possible measures directed at *local tax reform.* The present property tax is regressive, since low-income households pay a higher percentage of their incomes for housing than higher income households, and local assessment practices have been shown to exacerbate the inequities. This is particularly true in places where property values have inflated much more rapidly than incomes in recent years. (It should be recalled that rental property owners pay these taxes out of rents.) The wave of anti-tax measures, beginning with California's Proposition 13, is a response to these inequities; the benefits of such measures have gone largely to the wealthy.

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[2] There are several caveats to this proposal, however.

- An overly steep windfall profits tax could eliminate virtually all incentive to buy and sell rental housing. Therefore, the tax would have to be restricted to an appropriate range, to insure market allocation.

- Such a tax might have the effect of reducing the incentive to construct rental housing. To partially mitigate this effect, the tax could exempt the first sale of any building by its developer, in which case profit would be taxed at the ordinary rate.

- Similar considerations should apply to substantial rehabilitation or other capital improvements. Such productive investment should be encouraged, and the resulting increase in value therefore be taxed at ordinary rates.

The *property tax* could be made more progressive by charging higher tax rates for more highly valued property. Such a reform might apply to all residential real estate, including residentially-zoned vacant lots. A minimum full tax exemption, tied to local conditions, could provide circuit-breaker relief to low income homeowners and low income residents of private rental housing (in this case, rents would have to be controlled to assure that the tax savings were passed through to tenants). A portion of the local property tax could be earmarked for community housing programs. In a similar fashion, a *luxury housing tax* could assess higher taxes on certain classes of luxury housing.[8]

Financing Affordable Housing

A number of programs could generate various forms of subsidy *within* the private credit economy. To the extent that costs are borne by private credit institutions, they involve no significant public costs. They are intended to "steer" private credit towards community housing objectives. For example, an extension of the existing *Community Reinvestment Act* concept could include not only geographical responsibility, but also an affirmative obligation to meet the housing needs of low and moderate income and minority households, by expanding and upgrading the housing supply. *Differential taxes* could be levied on private credit institutions, with rate differences rewarding preferred types of lending. Revenues raised by such taxes can be targeted for use as direct grants to the non-profit housing sector. *Loan setaside requirements.* could be established. according to which lenders would be required to invest specified amounts (e.g., 5-10 percent of assets) for designated community housing objectives. *Differential reserve requirements* constitute another means of steering credit allocation. Under this approach, special reserve requirements would be established for mortgage loans, with larger reserves for higher-cost mortgages. Low-cost mortgages could be exempted altogether, and lenders given a reserve credit for such loans as well. The mortgage reserve balances could then be invested in low-cost housing. To the extent that lenders meet housing targets, the differentials would be reduced or eliminated. Finally, a *below market interest rate* requirement could be established, whereby a certain percentage of loans would be made at below-market rates for community housing purposes. This would result in an internal transfer (cross subsidy) among borrowers, whereby recipients of low interest loans would be subsidized by other borrowers. This approach is similar to inclusionary zoning, whereby developers are required to price a targeted percentage of units for low- or moderate-income occupants.

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[8] The principal features of such a tax might include:

- o A progressive tax on the landlord's rental income from luxury units--that is, units that rent for more than a specified amount, the amount determined by median local tenants' incomes;
- o a progressive deed transfer tax on luxury rental units--that is, units that sell for more than a specified amount, based on local market characteristics; and,
- o a similar progressive deed transfer tax on luxury homes.

Given the increasing role of insurance companies, pension funds, and other non-banking institutions as a source of housing credit, care must be taken that such measures, if adopted, are not punitive towards traditional lending institutions. Any legislation which creates such measures should apply them equally to all sources of credit, and carefully monitor the results to insure that the private credit economy is not destabilized.

Building on Existing Government Programs

There are a number of federal programs which could be modified to provide some community housing. In any federal project where private developers receive funding (such as through Urban Development Action Grants), a federal requirement could be established whereby some community housing be provided as a part of the project. For example, *urban redevelopment programs* often offer the potential for public acquisition of land as well as public control over the development process, and could thus be used to facilitate construction for community ownership. *Tax exempt bond financing* could be replaced with direct federal financing through Community Development Block Grant and Urban Development Action Grant programs. Despite their limitations, these two programs do constitute already existing mechanisms whereby direct disbursements are made from the federal Treasury to localities for public purposes. Finally, *turnkey-type programs*, including the few remaining public housing projects under construction, can continue to provide units, so long as projects are subject to appropriate design and construction standards.

A Long-Term Program

To reiterate, our intention is to provide housing that meets the needs of those low- and moderate-income households not served by the present system. To achieve this end, we offer a number of long-term measures which can serve as a guide for future action. These measures are intended to secure and enhance the rights of use ordinarily associated with private ownership: security of tenure, privacy, the right to modify one's living environment. Only the right to profit in housing would be unavailable to those households who choose this alternative. Because community-based housing eliminates profits from production, financing, and ownership, its cost will include only operating and maintenance expenses. Nonetheless, subsidies will be provided where necessary to assure that rent payments reflect true ability to pay. Under this Program, housing is operated only for resident and community benefit.

The community-based housing stock will increase both as a result of production programs, and from conversion of market housing to various forms of non-profit or public ownership. At the same time existing housing which is subject to some form of similar ownership or control--such as public housing, limited equity cooperatives, and some assisted housing--must be safeguarded against demolition or sale to private ownership. The Program will arrest these processes, maintaining and enhancing the existing stock.

It is important to recognize that low and moderate income housing, in whatever form it takes, can be designed in such a way as to create a community feeling and inhibit crime. Newman (1980) has persuasively demonstrated that multifamily housing that fulfills certain minimal design requirements can be as liveable as the conventional home. Newman calls for low-rise units with a clear demarcation between private, semi-private, and public space, affording optimum surveillance of all exterior communal space. Where appropriate, childcare and playground facilities can be incorporated in the design, which should in any case complement prevailing community standards. Part of the opposition to public housing stems from its often drab, jail-like atmosphere. There is no reason, however, why such housing cannot incorporate a "human feel" of uniqueness and individuality that makes residents and neighbors proud--as numerous individual examples of high quality public housing attest. As we argued in Chapter 2, housing is a symbol of self that confers status within society.

Cooperatives with resale restrictions offer a useful example of attractive multifamily community-based housing, since they provide many of the guarantees ordinarily associated with home ownership.[4] Such cooperatives are operated through a non-profit corporation which holds a single mortgage on the property. The corporation is democratically run with an elected board of directors. Under typical arrangements, each new owner purchases a share for a minimal down payment. Monthly payments then include each owner's share of the common mortgage, plus a fee for maintenance and operating expenses. When an owner wishes to move, she or he sells the share back to the cooperative, which then resells it to a new owner. Since the whole process takes place within the cooperative corporation, no new financing or real estate fees are ever involved.

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[4] The following discussion is adapted from SCIP, 1980 (as reproduced in Gilderbloom *et al*, 1981: 240-241.

The cooperative is termed *limited equity* because the appreciation in the value of each member's share is limited by common agreement to a low level.[5] Cooperative members cannot sell their shares for what the market will bear. In this way the sales price of units quickly falls below the market price for comparable housing. While a typical home or condominium is sold and refinanced at ever-inflating prices many times over its lifespan, a limited equity cooperative is never sold. The original mortgage is retained until it is fully paid off, at which time the monthly payments of the owners decrease to the amount necessary to operate and maintain the units. The principal difference between cooperative and private ownership is that within cooperatives, owners may change many times without the cooperative itself ever changing owners. Owners share the full rights and privileges of private owners, including the tax benefits which are not available to tenants in rental housing.

Producing and Financing Community-Based Housing

With this example in mind, we now turn to the first of several Acts, the *National Housing Production and Finance Act*, which sets national production and rehabilitation goals for community-based housing. Under this Act, *Production* would be directed increasingly towards non-profit developers. *Finance* would become the responsibility of the federal government rather than private credit institutions, and would be achieved through a system of direct capital grants. *Ownership* would rest in the hands of residents, public agencies, or community organizations. In all instances, management would be structured so as to promote resident involvement and encourage resident control over the use of space.

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[5] For example, California law currently limits appreciation to 10 percent annual on the original downpayment plus approved improvements.

In growing locales new construction of community-based housing would be a first priority under this Act. In areas that are not growing, or are declining in population, acquisition and rehabilitation of the existing deteriorating rental housing stock might prove more suitable for ownership as public housing, community-owned housing, or limited-equity cooperatives.

Community-based housing units are the *only* units to be constructed, rehabilitated, or financed under this Act, which calls for a redirection of all federal financial assistance to the non-profit sector. All such units would be targeted towards low- and moderate-income households. The Act's production and rehabilitation goals would take into account the quality of the existing housing stock; preservation and upgrading of existing community-based housing units; goals for converting private rental units to the non-market sector; and shortages confronted by specific population groups (see Angotti and Dale, 1981). Needs- assessments would be conducted by localities as part of their federally-mandated housing plans (see below), taking into account their fair-share housing needs. Production and rehabilitation goals would be reassessed and revised every four years, on the basis of actual performance.

While in the short run it is anticipated that construction will be done initially by private for-profit builders, in the long run it is the objective of this Act to steer production towards the third stream of non-profit developers and public agencies, whose principal concerns are with providing decent, affordable housing rather than profit maximizing. This would be accomplished by offering technical assistance and additional funding to such groups.

All *federal financing* for housing construction and rehabilitation would be limited to either the community-based housing sector, or to privately owned units that are converting to that sector. Financing would consist exclusively of *direct grants.* Only in this fashion can costs be controlled and the production of affordable housing disentangled from private credit markets, whose economic cycles and volatile interest rates were shown in Chapters 4 and 6 to add appreciably to costs.

While we believe the most cost-effective method for producing subsidized housing is through the use of direct grants for both equity and debt capital, we recognize that the federal government can raise the money for such grants through two methods: taxation and borrowing. In terms of the principles and objectives of this program, there is a distinct trade-off between these two approaches. Taxation, provided it is progressive, is the most equitable of the two. Debt financing, in contrast, adds the burden of interest expenses to capital costs, a profit which is typically realized by wealthy investors. Furthermore, over time debt service becomes an enormous component of on-going costs, resulting in mounting political pressure to reduce new allocations. Such pressures could jeopardize the housing program in the long run. On the other hand, borrowing has the immediate advantage of reducing current costs, thereby permitting a greater extension of limited resources in the short run. Given the urgent need for additional housing, borrowing may provide the best way to produce the most units in the shortest period of time.

The preferred financing method would depend on such considerations as interest rates, expected inflation, and the rate at which future costs are discounted to their present value; the valuation of present need over future costs; the long-term economic danger of contributing to a mounting national debt; and the political difficulties inherent in debt financing. The balance between the two methods would necessarily reflect economic and political considerations at the time annual allocations are made through the ordinary federal budgetary process. To the extent that borrowing is used, however, we offer two guidelines: first, the borrowing and repayment plan should be as progressive as possible; and second, firm commitments should be sought for the level of actual housing production in future years. Regardless of how the federal government might raise its revenues for the proposed housing programs, however, localities and other agencies would realize their revenues for such programs through direct federal grants.

We believe that any impediments to direct federal financing of housing are largely ideological and political, rather than economic. Military housing is a prime existing example of such an approach. In communities where the private housing stock is inadequate, the armed services have built over 400,000 units of family housing for their personnel. Construction, maintenance, and modernization has been largely by means of direct allocations from Congressional appropriations to the Defense Department budget. Other examples include FmHA's Section 514/516 program, which has been successful in producing low-cost rural housing, and more recently HODAG and Rental Rehabilitation grants. (These direct grant programs are of course not restricted to community-based housing, and therefore, in our view, serve also to subsidize the inefficiencies of the marketplace.)

A portion of federal capital funding should go towards public site acquisition, through land banking or other means to acquire sites for housing under this Program. While the exact portion devoted to such purposes must be determined in accordance with local plans, the objective would be to reduce future costs of public development by acquiring suitable land as it becomes available.

Costs of operating community-based housing will be considerably lower than in the private sector, since they reflect only operation and maintenance. Direct federal financing of construction would remove the substantial capital cost component ordinarily included in rental charges, while community or resident ownership would eliminate ordinary landlords' profits. Despite the lower costs, however, many households will still have incomes too low to cover monthly operating and maintenance costs, and so each project would receive a commitment of *universal operating subsidies*. These subsidies would also be available to privately-owned rental units in communities that have adopted adequate local housing plans. The operating subsidies would serve to greatly enhance affordability, while increasing the attractiveness of community-based housing.

As noted, operating subsidies are necessary initially because, given the present income distribution, there will frequently remain a gap between ability to pay and rents, even in the community-based housing sector. As we have seen in Chapter 4, ability to pay is a function of disposable household income *after* spending outlays on such non-shelter necessities as food, health care, clothing, and so forth. This, of course, varies with income, household size and other characteristics. These operating subsidies will, however, be only approximately one-half of current Section 8 subsidies, reflecting the lower rents.

Unlike Section 8, which requires recipients to pay 30 percent of their income regardless of how low the income or how large the household (and therefore its non-housing expenses), the proposed operating subsidy levels will not reduce family income needed for other necessities. As a first step towards the replacement of the arbitrary "30 percent formula" with one tied to a true ability to pay criterion, the 30 percent ratio would be applied to *adjusted* annual income on rents, the adjustment consisting of a $1,200 deduction for each household member, plus child care and extraordinary medical expenses (Table 9.2). Under this formula a four-person family with an annual total income of $20,000 and no childcare or unusual medical expenses would pay $380 in monthly rent (23 percent of total income), with any difference between rent and actual housing cost covered by the operating subsidy; a four person family earning $10,000 annually would pay $130 per month, or 16 percent (Stone, 1983: 111). Over time the formula could be adjusted to take into account actual non-shelter expenses as estimated by the Bureau of Labor Statistics, an approach that would be more accurate and equitable although somewhat more complex to administer.

[Table 9.2 about here]

If a Program were enacted that initially provided 200,000 newly constructed units and 400,000 substantially rehabilitated units per year, the first-year cost would be $20 billion, assuming new construction costs of $60,000 per unit and rehabilitation costs of roughly one-third that amount.

Additionally, operating subsidies will reach a total of 6.5 million units, at a total cost of $13 billion--assuming an average per-unit subsidy of $2,000 per year (or $167 per month). The total cost of the production program, with operating subsidies, would therefore be $33 billion per year.

Converting Existing Market Housing to the Community Sector

Conversions from the private to community-based housing would be encouraged under a *National Housing Conversion Act*, the second major component of our Program. Such conversions may occur either because an existing owner wishes to sell; is forced to do so because s/he faces mortgage or property tax foreclosure, or costly required code enforcement; or finds him/herself in receivership. HUD-held units constitute yet another source. In any case, there must exist a non-profit owner who is technically and financially capable of acquiring the property, rehabilitating it if necessary while avoiding displacement, renting it at an affordable level, and administering operating subsidies.

Under the provisions of this Act, the federal government would provide financial and technical assistance to localities, which in turn would set local targets for rental housing conversion to the community-based sector. In addition to administering the funds and providing technical assistance to groups undertaking conversions, localities would be responsible for establishing legal mechanisms which to facilitate such conversions.[6] The purchase price for conversions would necessarily be determined by market value. If the proposed Program were adopted in full, under conditions of adequate supply and in the absence of tax sheltering and speculation, market value could be expected to fall to more closely reflect the value of the unit as a place of residence, taking into account such factors as location, condition, space, and amenities, while excluding the effects of tax sheltering and speculation. In the absence of such conditions, however, the paying of full market price may in some places be costly as well as supportive of a speculative pricing system. For this reason localities would have to set maximum purchase prices for different types of units.

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[6] For example, legal mechanisms could be developed to:

- o grant the right of first purchase option to tenants' organizations, community groups, government entities, or other legally defined community-based owners;
- o establish a formula for determining the maximum buy-out price that may be paid using public funds, in order to discourage purchases that are excessively costly (e.g., luxury units, speculatively priced units);
- o spell out procedures for determining the proportion of tenants required for first option purchases, while protecting tenants who choose not to buy into the conversion;
- o require permanent community-based ownership once transfer is completed (i.e., no housing is ever sold out of the non-profit housing stock unless some clear public purpose is served);
- o establish procedures for speedy local tax title search, to enable localities to obtain control of housing that is in tax arrears; and
- o provide a legal definition of the various community-based ownership forms that will qualify for funding under the provisions of this Act.

In addition to these measures, provision could be made for a permanent offer of purchase at a reasonable price of any low or moderate income rental property in which the mortgage has been paid in full and to which the owner holds clear title. The local government, using federal funds, would be the principal purchasing agency, and would subsequently either transfer such housing to an appropriate community-based owner or would administer it through the local housing authority. The purpose of such a provision is to facilitate property transfers in which the owner, for whatever reason, wishes to divest him/herself of property at a fair price. Such a provision would be well publicized, would be especially attractive to owners who support the concept of community-based housing, and would expedite quick transfer by providing what is essentially a standing offer to buy.

Low- and moderate-income rental property that is being foreclosed by the bank or tax collector could also provide an important source of housing conversions. Notice of impending foreclosure proceedings could be provided to the appropriate local housing agency. In those foreclosure cases where the market value of the property exceeds the back taxes or debt, the locality could offer to purchase the properties from their owners for an amount not to exceed that value, thereby acquiring the property for the community-based sector. Such an offer would be subject to the maximum price limitations for conversions, as indicated above. Back taxes would be paid upon purchase. In most instances the loans would also be paid in full, although the non-profit owner might in some cases wish to assume the loan (as when the interest rate is extremely low) in order to lower short-term costs. (Long-term costs are minimized by paying all debts upon acquisition.)

In those cases where the debts exceed the market value, the property could simply be allowed to go through foreclosure proceedings. Under the provisions of this Act, the local government or other community-based non-profit entity would have first option to purchase the property from the bank or the tax collector for the amount of the remaining debt or less.

Properties that are in substandard condition would be required to be brought up to code. Owners who could not afford to do so could choose to sell the property to a community-based owner, at a price that could not exceed the market value. Alternatively, direct capital grants could be made available to the owner to bring the property up to adequate health and safety standards, provided that the owner agreed to sell the property to a community-based owner after a specified period of time. The buyout price could be determined by negotiation between the locality and the owner, and would reflect the *current* value of the unit excluding the amount of the improvement grant. This approach would enable the owner to derive benefit from the property for a specified period, while securing future community-based housing at below-market prices.

Although were are primarily concerned with rental housing, the single-family housing stock constitutes another potential resource for community-based housing that should not be overlooked. In particular, housing that is under foreclosure proceedings can be readily and inexpensively converted to the community-based housing stock, at the same time protecting homeowners against foreclosure and eviction. Such a program will be of particular benefit to elderly homeowners who find themselves in mortgage or tax arrears. For example, homeowners could have the option of deeding their house to a community-based entity, in exchange for lifetime security of tenure at an affordable monthly cost. This option would be especially attractive for those homeowners who face mortgage or property tax foreclosure. This form of *protected ownership*, which lies between private and community-based ownership, would safeguard the continued residence of the existing owner, while banking the unit for future inclusion in the community-based sector. A related program could provide home improvement grants in exchange for deeding the property to a non-profit entity after a specified time. This program would operate in a similar fashion to the rehabilitation grant program for rental property.

Initially, we propose the annual conversion of 160,000 rental units at a per-unit cost estimated at $35,000, and an equal number of homes at $50,000 each. Additionally, 81,000 HUD-held units would be acquired at an estimated total cost of $1.2 billion. The total annual cost of all conversion programs is thus estimated at $14.8 billion.

Upgrading and Protecting The Existing Assisted Housing Stock

Assisted housing--such as public housing--is presently in danger of being demolished, sold, or otherwise converted out of the non-profit or governmental housing sector. Such housing represents an important existing resource that embodies many of the characteristics we call for in our community-based housing sector. Accordingly, a *National Home Protection and Improvment Act* would address these problems, while also providing for the upgrading of such units. Under the provisions of this Act, for example, when the removal of assisted housing residents might be required for some public purpose, adequate relocation benefits and compensation would have to be provided (along with one-to-one replacement of lost residential units). Grievance procedures would also be mandated to insure tenants due process and the right of appeal. Stringent removal protections could be enacted, including prohibitions against conversion to private ownership or demolition (unless some clear public purpose were being served). To assure adequate maintenance of the existing assisted housing stock, the Act could mandate code enforcement, while providing adequate federal funding for capital expenditures, maintenance, modernization, and ordinary operations. A program that might reach approximately 500,000 units (about 10 percent of all socially owned units) would cost an estimated $5 billion initially, at an average of $10,000 per unit.

A related problem is that assisted units are sometimes lost to low- and moderate-income households--either because they become occupied by households that no longer meet the original income qualifying standard, or because government housing assistance payments fall in absolute terms or relative to the cost of living. The Act would seek to assure continued affordability of existing assisted units by reserving all such units exclusively for qualifying households, and by using the universal operating subsidy program to assure that no such household spends more than it can reasonably afford.

A final problem concerns poor management in existing assisted housing projects. One of the principal attractions of single family home ownership is the degree of control it affords over the use of space. Private rental housing, by way of contrast, typically affords residents little control over common areas and often even over immediate living space. Furthermore, since tenants are often subject to arbitrary eviction--either directly, or through rent increases--they often don't experience strong personal identification with place. The "pride of ownership" is structurally absent from most rental situations. Other provisions of the Program are intended to provide residents in the community-based housing sector with all the benefits and securities of home ownership, excluding the right to resell at a profit. In this Act we seek to maximize democratic resident control over housing in the community-based sector (including existing assisted housing), moving towards eventual management control on the part of residents. The Act accordingly would mandate resident participation in all significant aspects of management in the community-based housing sector, while providing training and technical assistance as needed.

Assuring Residential Security in Private Rental Housing

The private rental housing stock should be regulated to protect tenants in privately-owned rental units from inadequate maintenance, arbitrary evictions, and unreasonable rent increases. A *National Private Tenant Protection Act* would seek to achieve these objectives by a mixture of binding regulation and voluntary local compliance. First, it would prohibit certain classes of tenant evictions, including evictions for luxury rehabilitation, demolition, or condominium conversion (unless prior one-to-one replacement and relocation benefits are provided), as well as eviction for any temporary inability to pay rent that results from involuntary loss of income. Second, it would tie federal housing grants, block grants, and other funding to demonstrated local compliance with the overall objectives of this housing program. Localities would be placed under an affirmative obligation to provide adequate and affordable housing for their present and projected population, and required to demonstrate such compliance, subject to local conditions, in order to be eligible for any federal funds connected with housing or urban developent. Finally, The Act would establish a series of model ordinances whose adoption would automatically meet federal requirements. Such ordinances would include (but not be limited to) such tenant protections as rent control, condominium conversion and demolition controls, just cause eviction, warranty of habitability, resale controls, and receivership.

Some measures would be universally mandated, while others would be local-option measures that would become mandatory only when it was determined that a *local housing emergency* existed. Such a determination would be based on vacancy and unemployment rates, inflation in rents, and other local conditions which would be specified as part of the local housing program.

Specific measures would include the following:

o **Anti-Discrimination**: All localities would be required to insure maximum freedom of choice in the selection of housing. Specifically, localities would be required to legislate against arbitrary discriminate against any person in the sale or lease of residential property. Arbitrary discrimination in this context would includes (but is not limited to) discrimination based on race, national origin, religion, sex, age, source of income, physical disability, marital status, sexual preference, family size, or presence of children.

- **Warranty of Habitability:** All localities would be compelled to required landlords to provide housing that complies with minimum standards of health, safety, and livability. Over time, these standards would be upgraded to achieve adequate levels of residential amenity with regard to energy-efficiency, space utilization, security; and resident services such as child care.

- **Eviction Controls:** All localities would be obligated to protect tenants from arbitrary eviction without such "just cause" as non-payment of rent, willful destruction of property, or gross violation of community standards. In these cases, tenants being evicted would be afforded due process guarantees. When a local housing emergency was determined to exist, evictions for luxury rehabilitation, demolition, or condominium conversion would also be prohibited, except where a compelling public purpose is served (see below); in any case, adequate relocation assistance would be provided. Other exceptions would be established based on local needs and conditions, subject to federal approval. Additionally, during a local housing emergency tenants could not be evicted because of any temporary inability to pay rent that resulted from an involuntary loss of income.

- **Rent Control:** Local regulation of rents would be required whenever it was determined that a local housing emergency existed. Local rent control ordinances would meet minimal federal standards, including: a) allowable rent adjustments limited to reasonable operating cost increases, and b) retention of controls for all units subject to the ordinance regardless of changes in tenancy, until the emergency conditions that triggered the ordinance were determined to be over.

- o **Conversion Controls:** Local regulation of conversions to condominiums or non-residential use would also be triggered by the existence of a local housing emergency. Acceptable local ordinances would have to contain a blanket prohibition against conversions, with two exceptions: conversions to community-based forms of ownership, and conversions approved by three-quarters of the existing residents which also provide for prior one-for-one replacement with equivalent housing. In both cases, adequate notice provisions, relocation benefits, and other safeguards would be required for tenants being displaced.

- o **Demolition:** Also where a local housing emergency was determined to exist, localities would also prohibit all demolitions of rental housing except those required for a compelling public purpose, with prior one-for-one replacement of equivalent units and with adequate tenant notice and relocation benefits. Arson-for-profit, which as we saw in Chapter 2 results in significant housing losses in some communities, would be combatted by strict enforcement of existing anti-arson laws, as well as local legislation requiring that paid insurance claims be reinvested in the damaged housing. In extreme cases, unsafe housing would be acquired by local government through the use of eminent domain.

Total first year Program costs, summarized in Table 9.1, are estimated at approximately $55 billion. While this would appear to be a large sum, it is less than the annual tax expenditure on homeowners' deductions, and less than one-fifth the proposed 1987 military budget. The question of housing finance ultimately depends on national spending priorities. There is no shortage of capital for this or any other public objective. There is, however, a shortage of affordable capital, which results from three sources: the misallocation of resources to non-productive uses, principal among which in our view is the military budget; the reliance on private credit markets for funding; and wasteful speculation rather than productive investment. Although we have addressed only the latter two problems, it should be clear that *no adequate housing program is possible without the redirection of a significant portion of current military spending*. There is no magic formula by which the necessary amounts of new funds can be generated, short of a major reduction in military spending. Although some limited funds can be generated by eliminating inequities in the present tax system, an adequate housing program will eventually require a shift in national priorities and commitments.

[Table 9.1 about here.]

Program Implementation: Federally-Mandated Local Housing Programs

Most of the measures discussed in previous sections of this Program are implemented at the local level. The role of the federal government would be twofold: first, to establish general guidelines and minimal requirements which assure that the housing needs of low and moderate income people would be met; and second, to provide the financial and technical resources for localities to meet those needs. In other words, administration of the various elements of the program is to be as decentralized as possible. This would simultaneously avoid federal bureaucratization, and maximize resident participation and control.[7]

Local compliance with the various Acts of the Housing Program would be a threshhold requirement for receiving federal funds. Yet the Acts would operate through existing state and local planning or housing departments, utilizing the police powers through which state and local governments are able to regulate the private sector. As a consequence, each locality would exercise a great deal of control over the housing plan's design and implementation, although the overall plan parameters would be established and monitored federally.

The principal provisions of this Act would establish that:

- it would be a state and local duty to evaluate, plan for, and adopt a program that responds to the needs of all households, including a regional fair share of lower income and minority families;
- federal funds for housing, highway and sewer construction, economic development (including small businesses), Urban Development Action Grants (UDAG), Community Development Block Grants (CDBG), and other federal programs which directly and indirectly impact housing would be restricted to states and localities that are affirmatively satisfying their housing responsibilities;

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[7] We estimate first year federal administration costs at approximately $2 billion (see Table 9.1).

- local governments would be required to adopt complying local housing plans, utilizing all their powers and available resources to carry out the programs in those plans;

- states would be required to adopt statutes which designate an agency (presumably an existing one with housing or planning responsibilities) with primary enforcement responsibilities for ensuring that localities comply with the Act; and,

- HUD would be designated the secondary enforcement body, with authority to certify the adequacy of state statutes and state compliance, and with additional authority to block or delay grants from federal agencies to non-complying states.

Each locality's housing plan would be required to make adequate provision for the existing and projected needs of all economic and racial segments of the community, and provide for adequate sites for new construction. The Act would further require that each local government not only assess its own needs and adopt broad goals and policies consistent with those needs, but also include in its housing plan an action plan for meeting those needs. The local housing plan would provide for the production and rehabilitation of community-based housing, conversion from private to community-based ownership, and the regulation of private rental housing.

Conclusion: Housing As An Entitlement

As a growing portion of our national housing stock is acquired, produced, financed, and owned by the community-based sector, with increasingly adequate public resources channeled for these purposes, adequate and affordable housing will become a matter of universal national entitlement. Accordingly, in the long run this Program will guarantee every resident the rights provided by all the legislative Acts. These will include the following:

Affordability

The basic non-speculative nature of community-based housing, with operation and resale for profit prohibited, will significantly reduce housing costs and enhance affordability over time. Additionally, since housing in the community-based sector will eventually be debt-free (with new construction and rehabilitation funded through direct grants and the mortgage debt on converted properties retired), capital costs will be permanently eliminated from ongoing shelter expenses. Occupancy costs will be further reduced through progressive property tax reform and increased reliance on non-profit management, making community-based housing affordable for the vast majority of residents.

Universal operating subsidies provided on an entitlement basis will further assist those residents who are unable to meet even the basic cost of housing operations in the community-based sector. With rents increasingly geared to true ability to pay, taking into account the variability in household income and non-shelter expenditure levels for different types of families, housing affordability will be permanently guaranteed for residents. An equivalent level of affordability and subsidies will be guaranteed for tenants and owner-occupants whose units are in transition to community-based ownership. Tenants remaining in the private sector will also find their housing considerably more affordable, as rent control and other components of the program which reduce opportunities for speculative profit are implemented.

Over time, housing operating subsidies will become increasingly resident-based (as distinguished from project-based) to maximize freedom of choice for residents within the community-based sector. This approach, of course, can only be accomplished within the context a strictly regulated housing market that includes a substantial non-market component, to avoid inflationary effects. Ultimately, housing subsidies might be replaced by a negative income tax which would enable lower income people to meet their shelter and other needs adequately.

Habitability

As the community-based housing sector expands, the quality of the housing stock and the physical standard of habitability to which residents are entitled will be progressively upgraded. For housing that is owned by (or in transition to ownership by) non-profit entities, the provision of direct grants will assure an adequate level of capital repairs while operating subsidies facilitate ongoing project viability. Unlike the present market-oriented system where resources are invested in housing upkeep and renovation only when it is profitable for an owner or lender to do so, community-based ownership, financing, and production wil[illegible]arantee both the incentive and the resources for continuing residential improvement.

Over time, with adequate capital and operating resources, both new housing that is produced directly for the community-based sector and housing that is converted to such ownership will be upgraded to achieve increasing levels of residential amenity. This includes improved physical features such as unit layout, apartment configuration, and site and building design, especially in response to the needs of special constituencies (such as the handicapped, and single women with children). It also encompasses operating amenities such as increased energy efficiency and security, as well as social amenities such as day care and other services that are logically residentially-based.

Additionally, increased voluntary upgrading by residents with enhanced security of tenure and control of their housing will continuously improve the quality of the community-based housing stock. Finally, tenants in housing that remains within the private sector will also achieve significant improvements in the quality of their living environments, as higher standards of residential amenity are adopted over time.

Security of Tenure

Under the proposed system of community-based ownership, production, and financing, security of tenure--the right to continued occupancy of a housing unit of choice--will be achieved as an aspect of residential entitlement. All community-based housing residents, including tenants and owner-occupants whose units are deeded or optioned to the community-based sector, will be guaranteed a permanent life-estate except where removal of the housing unit is required for a compelling social purpose, or removal of the occupant is necessitated by significant and repeated violations of community standards. With occupancy charges based on true ability to pay and management policies subject to resident control, intances of non-payment, destruction of property, and other traditional causes of eviction in our market-oriented housing system will be minimized.

Additionally, increasing regulation of conditions, use conversion, demolition, and eviction for other than a "just cause" will protect tenants remaining in the private sector from forced displacement, while rent control and other measures will further enhance security by promoting greater affordability. Finally, the creation of new ownership and tenure options not based on the protection of property values will encourage greater acceptance of neighborhood change and inclusionary housing patterns, providing a new basis for community security. As the discriminatory uses of housing in our profit-oriented economy are eliminated, with affirmative efforts to expand housing mobility and to revitalize existing minority communities, the right of residential security will encompass a locational aspect: the right to remain in place or to move to an alternative neighborhood of choice.

Control

The right of residents to control their living situations will be progressively achieved under the proposed Program. Low and moderate income homeowners' ability to maintain control over their housing in the face of burdensome mortgage debt, property tax, and repair obligations will be enhanced through programs offering increased affordability and security of tenure, without opportunity for speculation. Increased protection of tenants' rights in the private sector, through collective bargaining as well as limitations on landlords' authority to dictate rents, occupancy terms, tenure, and living conditions will free residents to some extent from the arbitrary control exercised by others over their living situations. At the same time, our Program for the regulated conversion of the private rental housing stock will significantly expand opportunities for direct ownership and control by resident associations, tenant cooperatives, and individual owner-occupants, on an affordable, non-speculative basis.

Ultimately the level of control afforded to community-based housing residents as a matter of entitlement will be significantly greater than that experienced by most homeowners today. Positive features of conventional homeownership--such as the ability to modify and adapt one's living space to changing needs--will be retained and enhanced as residents achieve permanent affordability and security of tenure. And since resident and community benefit is the sole purpose of housing production and ownership through the community-based sector, residents and neighbors will be entitled and motivated to participate actively in housing design, development, and management decisions. As more and more of the community-based housing stock is actually developed and managed by resident-controlled non-profit entities, opportunities for building and operating housing in a way that is truly responsive to resident needs will be significantly enhanced.

Finally, the removal of opportunities for speculation in housing will enhance community control by increasing neighborhood stability. Enhanced resident and neighborhood control of housing also implies an obligation for increased collective responsibility, that is for mediation and settlement of resident disputes and grievances. It also requires that control be exercised responsibly within the framework of basic democratic and non-exclusionary principles, and not be misused to deny housing access or opportunity. As the concept of residential entitlement is progressively realized, the corresponding notion of residential responsibility will also be achieved.

Table 9.1

National Comprehensive Housing Program:
First Year Costs

	cost/unit (thousands)	no. units (thousands)	total cost (billions)
New Construction for Social Ownership (a)	$60	200	$12.0
Rehabilitation for Social Ownership (b)	$20	400	$8.0
Operating Subsidies for Social Housing (c)	$2	6,500	$13.0
Conversion of Private Rental Units (d)	$35	160	$5.6
Conversion of Homeowner Units (e)	$50	160	$8.0
Conversion of HUD-held units (f)	--	81	$1.2
Modernization of Existing Social Units (g)	$10	500	$5.0
Administration (h)	--	--	$2.0
TOTAL			$54.8

Source: Appelbaum et al, 1986

NOTES:

(a) Based on 1984 construction costs, adding land and subtracting finance costs, since financing will be through direct grants; see Hartman and Stone (1986
(b) Rehabilitation only (acquisition costs are include under conversion element); per unit cost is based various rehabilitation projects.
(c) Operating expenses only (debt service included und conversion element). Derived from 1983 operating c data, adjusted to 1985, and applying Stone's affordability scale (See Hartman and Stone, 1986:
(d) Assumes full payment of negotiated price in year purchased (see Hartman and Stone, 1986: 500-501).
(e) Assumes full payment at time of acquisition for mortgage balance and negotiated equity.
(f) Based upon Achtenberg, 1986.
(g) Existing assisted stock only; assumes that most un need modest but not major rehabilitation.
(h) Conservative estimate.

Table 9.2

Subsidized Rents Under Proposed Rent Formula*

	-----rent------	
gross annual income	amount	% income
$1,000	$4	5.0%
$2,000	$8	5.0%
$3,000	$13	5.0%
$4,000	$17	5.0%
$5,000	$21	5.0%
$6,000	$30	6.0%
$7,000	$55	9.4%
$8,000	$80	12.0%
$9,000	$105	14.0%
$10,000	$130	15.6%
$11,000	$155	16.9%
$12,000	$180	18.0%
$13,000	$205	18.9%
$14,000	$230	19.7%
$15,000	$255	20.4%
$16,000	$280	21.0%
$17,000	$305	21.5%
$18,000	$330	22.0%
$19,000	$355	22.4%
$20,000	$380	22.8%

*Rent=30% net income (gross income less $1,200 deduction per person). Assumes minimum rent of 5% of gross income.

Source: Stone, 1983: Tables 4.1 and 4.2 (pp. 111-112)

THE NEED FOR A NEW NATIONAL HOUSING POLICY

by

Joe Carreras

At the lower end of the housing market, we face a triple threat from a lack of housing availability, housing affordability and unit quality. Federal housing development programs are phasing out and resources are being cut. Local governments are trying to adapt to this situation by developing residential space policies and occupancy standards.

The local occupancy policies that are emerging relate to three characteristics of residential living:

- o Under-occupancy due to "empty nesters" and higher income persons living in more space than they need.
- o Over-occupancy or "overcrowding" due to social change and economic circumstances.
- o No occupancy due to an inability to afford any housing at all.

Each of these situations pose a challenge to local government and invoke different regulatory responses. They also make it clear that a new national housing policy is needed to support and focus shelter assistance efforts.

SPACIOUS LIVING

According to the 1980 census, half of all homes with 5 or more bedrooms were occupied by people over 65 years old, an age group in which the average household contains fewer than two people. This housing situation is a result of changing demographics, and in effect warehouses units needed today by larger families. How to make more efficient use of existing housing is a regulatory problem for local government when it considers rules which permit unit additions, splits, mergers and conversions or secondary units on suitable lots. In a few communities, house sharing has been tried.

Also, alternative housing is needed if older households that are "house rich and income poor" are to find a home more suited to their lifestyle. Ironically, here in California, Prop. 13 acts as a disincentive to move due to the higher property tax burden that results from a new home assessment. It may be cheaper to stay in your residence with no mortgage or an old low interest rate mortgage than move to a smaller home.

Another problem is how do you make homeownership affordable? Today, 7 out of 10 families in California cannot afford the median priced home (about $160,000 in L.A. County). First-time buyers that rent have a particularly difficult time purchasing a unit with a reasonable proportion of their income (30%).

The 1980 census indicates that the median income of renters is half that of owners. And, in California, the percent of households who own their home is 52% compared to the national average of 64%. More so than in other places, there is a wide gap between those who own and those who rent. The separation has economic, geographic and racial dimensions which divides our region into rich and poor areas, bedroom and commercial areas and ethnically balanced and unbalanced areas, etc.

In terms of rental housing, because of a shortage of units relative to demand, landlords have a tendency to lease units to as few people as they can in order to minimize wear and tear on their apartments. It is also common for them to require an amount equal to first and last months rent for a security deposit and a cleaning fee before they lease a unit. In the aggregate, these deposits and fees can be quite high.

The strong demand for rental units and stiff move-in costs are an especially vexing problem for lower income persons, especially in communities that have adopted rent controls. Units are regulated at affordable levels but landlords lease (decontrolled) vacant units to higher income tenants, particularly single persons or childless couples, who may be willing to pay for improvements, extra space and for whom high move-in deposits and fees pose no special problems.

The practice of leasing units to as few people as possible has the effect of under-utilizing rental housing resources. It also works against a number of local government goals to:

- o provide affordable housing by higher density standards;
- o prohibit age discrimination, especially against families with children;
- o prevent the emergence of illegal units outside of the municipal permit system to meet the demand for shelter.
- o provide housing opportunities for all economic segments of the community

THE GROWING NEED AND THE FEDERAL RETREAT

Where does all this leave the poor - recent immigrants, modest income families with children, our Senior citizens and others on low fixed incomes? In the bidding war for space, they lose. Local governments try and intervene on their behalf through local programs using limited federal and State resources and local redevelopment funds, where available. In a few cases, local inclusionary linkage programs that exact units or contributions for affordable housing as a condition of commercial and/or residential development are put in place. Under extreme conditions, rent controls are adopted.

But what has been done is small compared to the need. Using the Southern California Association of Government's regional housing allocation model, we found that about 802,000 lower income households (persons earning less than 80% of their County's median income) were paying more than 30% of their income for shelter in 1980. These were households with an affordability need and did not count households living in substandard units but not overpaying for housing. It is a common perception that the market for illegal units is expanding, as our need for affordable housing has increased since 1980.

Illegal units are part of a "shadow housing market" which includes living quarters such as garages and unauthorized additions or conversions. A recent

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Los Angeles Times survey estimates that there are 200,000 people (mostly immigrants) living in 42,000 garages in Los Angeles County. They are typically overcrowded and substandard dwellings. The supply of this cheap housing is expanding as the available supply of better quality affordable housing is shrinking due to:

o private apartment owners upgrading their older buildings to meet earthquake safety standards. The costs of rehabilitation are being passed through to tenants in the form of higher rents, with the fear of displacement posing its greatest threat among people living in Single Room Occupancy hotels in downtown areas.

o Private landlords tearing down lower cost units and building more expensive apartments or condominiums to meet the strong demand for new housing, or to make way for commercial development. Better quality apartments are also being converted to higher cost condominiums. This demand is fueled by our healthy regional economy. If the Southern California area were its own nation, it would rank 14th in the world in terms of GNP.

o Popular sentiment in favor of "no growth" and downzoning for the sake of environmental concerns may limit future higher density building opportunities and raise housing costs near job centers. This late 1980's mood is evident in our coastal counties where most of our employment centers are located (Ventura, Los Angeles and Orange Counties), and where vacancy rates are low and housing prices high. People are particularly concerned about traffic congestion, air pollution and lengthy home-work trips caused by the additional housing demand generated by new commercial/industrial development and expansion.

While Federal Government policies affecting national debt, inflation, interest rates and mortgage interest deductability have a tremendous impact on housing affordability and prices, other Federal housing and tax policies focus more directly on the poor. For instance:

o The production of new subsidized housing by the Federal Government has dropped dramatically. Since 1981, the Federal housing budget has been cut by 70%. Making up for this loss is a major problem for State and local government.

o Federal restrictions on privately owned subsidized housing projects are expiring, and these units may be leased to higher income tenants in the future. According to a recent HUD study, nationally, 3243 projects are eligible to opt out, with 268 of them located in Southern California alone. While the dropout rate is projected by HUD to be 25% nationwide, in our region it is projected to be nearly 75%! About 80% of the projects eligible to opt out are located in Los Angeles County, with the City of Los Angeles alone having 55% of the projects. Over the next 7 years, 141 projects representing almost 12,500 units will be eligible to remove themselves from the Federally assisted housing inventory.

o Recent changes in the tax law may lead to higher shelter costs as owners try and make-up for their lost tax advantages through higher rents. It remains to be seen if this is even partially offset by the new tax credit program for lower income housing.

RATIONING SPACE FOR THE POOR

All this means that, with less units for rent and facing higher shelter costs, lower income persons are crowding into those units which are available. This brings us to one of the most controversial areas of residential space policies: Occupancy Standards.

Housing Occupancy Standards are adopted by local government and applied only to rental housing. Due to a Supreme Court decision, local ordinances limiting the number of persons in an R-1 zoned single family unit or a mobile home were struck down, i.e City of Santa Barbara test case. Typically, rental housing occupancy standards find their basis in local government health and safety concerns, and limit the extent to which overcrowding will be permitted.

For instance, the City of Los Angeles has an occupancy ordinance that calls for a minimum of air and floor space per person in a rental unit. Effectively, it allows 2 people per 70 square feet of sleeping area, with each additional person allocated another 50 sq. ft., or up to 10 people in a modestly sized two bedroom unit. This occupancy level permits a high degree of "overcrowding."

The U.S. Census defines overcrowding as 1.01 persons per room. In a typical two bedroom unit, with a living room, dining room and two sleeping rooms (kitchen and bathrooms don't count), up to 4 persons could be accommodated before the unit could be termed "overcrowed."

Occupancy standards are also recommended by Federal Government through the Department of Housing and Urban Developments' housing assistance programs (e.g. Section 8 and Public Housing). These standards do not permit any degree of overcrowding in a unit. They call for a maximum of 2 persons per bedroom, with children over 5 of the opposite sex having their own room. In a typical two bedroom unit, four persons would be the maximum permitted.

HUD also has minimum occupancy standards of one person per bedroom, so at least two people would occupy a two bedroom unit. As you can see, HUD tries to prevent both over-occupancy and under-occupancy..

Applications for HUD funded housing assistance, administered by local Public Housing Agencies, are logged and filed by the bedroom size that a family qualifies for given the federal standards. For example, if there are 2-4 persons in the family, they would be placed on the two bedroom waiting list.

WHO ARE THE PEOPLE AFFECTED THE MOST BY OCCUPANCY STANDARDS?

According to the 1980 U.S. Census, one in every eight immigrants to the U.S. between 1975-80 settled in Southern California, with 4/5 ths moving to L.A. County. Almost half (44%) of all recent immigrants were found to be living in overcrowed housing. For the population as a whole, only 8% lived in overcrowed housing. Most of these households were recent immigrants from Mexico, Central America and Asia.

Among ethnic groups, Hispanics had the highest incidence of living in overcrowed housing. Thirty percent of all Hispanic households - almost 3 times that of any other minority group and 15 times that of NH Whites - were living under this condition (Hispanics:30%;White:2%;Black:10% and Asian:3%).

Additionally, illegal aliens living in federally subsidized housing or assisted housing will be asked to move when new HUD regulations prohibiting assistance to undocumented aliens, many of whom are Hispanic, are implemented later this year.

Then there are the Homeless. They are the "exiles in the kingdom", abject and impoverished. The homeless are the people who have fallen out of the bottom of the housing market, and spilled out on to our streets and parks. Although there is no census of the homeless, Los Angeles County is considered by some to have one of the largest concentrations of the homeless in the country. Estimates range from 35,000-50,000 persons. According to a recent U.S. Conference of Mayors report, families with children are the fastest growing segment of the homeless population.

The homeless, like the tip of an iceberg, are the visible portion of the massive problem we face in Southern California and around the nation - the lack of affordable housing. Their plight is more than just a matter of personal tragedy and bad luck. The common need that cuts across every type of homeless person is the need for affordable shelter and permanent housing.

A NEW NATIONAL HOUSING POLICY

The wealthy have more space than they need and the poor don't have enough space. Ultimately, we need to be concerned less about occupancy standards, and how they are defined, and more about producing low income housing that is decent, safe and sanitary, retaining people in our housing market and retrieving persons from our streets and parks. The need for affordable housing has never been greater, but the national inventory of federally assisted housing and other resources is shrinking.

Without Federal resources to equalize the capacity to respond to our housing crisis among States and jurisdictions, the poorest areas with the highest needs will be underserved. Local regulations will substitute for diminished national subsidies and fractionalize the provision of assistance across broad housing markets. More units will be lost to higher income occupancy than are added by new program initiatives.

A new national housing policy is needed which is sensitive to regional housing market dynamics, and bold enough to provide the fiscal and tax incentives needed to stimulate local solutions. One of the first steps should be to save as much of the federally assisted housing inventory as possible. Another is to emphasize the use of nonprofit developers.

Deep one way subsidies, with a 20 or 30 year fuse on affordability requirements, should not be incentives for inducing private developer participation. Organizations dedicated to addressing social goals should be used. Locally supported private nonprofits may be the mechanism to link public resources and private capital and expertise.

Private nonprofits can also help assisted tenants buy back privately owned projects when subsidy terms expire, or help the Federal government buy back these developments. The need to assure the continued affordability of subsidized developments is a lesson that should not be lost on us as we try and reformulate our national housing strategy and goals.

The federal government needs to charge forward, instead of backwards, on housing issues, and like the 7th Calvary, come to the rescue of our embattled poor, and our beleaguered communities. This is especially true here in Southern California.

Rd #7 Box 1027
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October 5, 1987

Senator Alan Cranston
Senator Alfonse D'Amato
Subcommittee on Housing and
Urban Affairs
SD-535 Dirksen Senate Office Building
Washington, D.C. 20510

Re: National Rural Housing Policy

Dear Senators Cranston and D'Amato:

I appreciate this opportunity to comment on future rural housing policy as requested in your July 1, 1987 call for suggestions on the development of a new national housing policy. My comments are limited to rural housing policy and programs. Overall, I endorse the recommendations made by the Housing Assistance Council (HAC), and will spare you repetitious detail. There are areas of difference, and/or which merit highlighting, and for which I have provided brief comment. I have identified seven areas of concern relative to the development of a meaningful, efficient and cost effective national rural housing policy.

1. Reliance on tax codes for the development of assisted housing should be abandoned or curtailed. It is ultimately more costly than direct financing. In the rural programs investors only provide five percent of the development costs, so that their financial contribution is minimal and more than offset by substantial tax losses to the treasury. Investors have no interest in holding note for the long term, a fact which is contributing to the current prepayment crisis. While mitigating the problems associated with current mortgage loans is a thorny issue, it makes no sense to compound the difficulties by continuing the policies which are the root of the prepayment crisis. Finally, if the sheltered funds could be collected as taxes by the government, the resulting substantial increase in revenues would provide a means for expanding federal financing, more commensurate to need.

2. A direct federal program is essential in rural areas. The problems unique to rural America require separate consideration and programs, much as those in the inner cities also require a particular approach.

3. The rural housing programs must be made more flexible so that they may be combined with state or local programs, when available, to stretch service or serve even lower income households. The truth is that rural housing need far surpasses currently available federal state and local resources.

4. The Congress must continue to legislate and monitor programs and amendments to programs which target rural housing to those most in need. If there is budget constraint it should fall upon those most likely to obtain housing without federal assistance.

5. New programs, and amendments to those existing, must be developed which either expand our ability to serve those with very low-incomes or reduce costs or both. I refer you to the HAC recommendations for specifics. One illustration is their three alternative approaches for utilizing the Section 502 very low income program and funds. Another is the creation of capital grant financing for a portion of the Section 515 program to reduce long term cost and enhance participation by the public and private nonprofit sector (desireable for avoiding prepayment and tenant displacement).

6. Farmers Home Administration (FmHA) must be institutionally reformed, or replaced by a cabinet level Department of Rural Development, as a vehicle for the direct delivery of rural housing programs. Reforms are needed in many areas including curbing the authority of State Directors to ignore appropriations acts, redesigning an appeal procedure which will guarantee due process to the public, vigorous affirmative active enforcement, overhaul (I recommend subdividing) the finance office, improving data collection ability and, training employees as to the social service nature of the agency, etc. What once was loved is now too often despised. However, there is much worth saving in the FmHA structure. Ideally Congress would transfer FmHA into the rural development department, thus freeing it from the burden of the Department of Agriculture, where FmHA programs have never been well received or supported.

7. However the committee decides to proceed, it should not anticipate development of a policy that will be inexpensive. Providing housing for low income families requires either increased income or subsidy. Technology alone will never bridge the gap. The cost also cannot be directed to the states, for many cannot afford the undertaking. As noted earlier it will take the resources of all levels of government to come close to meeting rural housing needs.

I have a long list of more specific recommendations, some of which are reduced to legislative language. More important is some recognition of the seven areas of concern and a thorough examination of the HAC paper.

Thank you for your work in reexamining national housing policy.

Sincerely,

Art Collings

Arthur M. Collings, Jr.

AMC/lr

Attachment

Arthur M. Collings Jr.

Currently retired from Farmers Home Administration (FmHA) and employed as a consultant for the Housing Assistance Council, Inc. (HAC)

Formerly a Special Assistant to the Administrator of FmHA in a rural housing policy capacity (1977-1981)

Worked for HAC from 1972-1977 while on leave of absence from FmHA, and 1981-1985 on an I.P.A. detail.

Originator of a number of amendments to Title V of the Housing Act of 1949. Co-originator of Section 521 Rental Assistance.

Advocate for program beneficiaries, i.e. low income homeowners and tenants, believing that both FmHA and the industry are of secondary importance.

Member of the Board of Directors, National Rural Housing Coalition.

"TENANT-BASED" RENT SUBSIDIES
and
COORDINATED REHABILITATION OF RENTAL HOUSING

An Essential "Building Block"
In the New Legislative Strategy for Housing

LEGISLATIVE RECOMMENDATIONS

By

Robert I. Dodge III
former Director, Office of Urban Rehabilitation
Department of Housing and Urban Development

(Originator and initial manager of the
RENTAL REHABILITATION PROGRAM)

"TENANT-BASED" RENT SUBSIDIES
and
COORDINATED REHABILITATION OF RENTAL HOUSING

SUMMARY

"Tenant-based" rent subsidies, primarily Section 8 certificates and vouchers, are an important and successful segment of Federal assistance for lower income tenants. These tenant-based subsidy programs are generally accepted as the most cost-effective tool to house a low income family. They give the best "bang-for-the-buck" of all low-income housing programs thus far tried in America.

The Rental Rehabilitation Program renovates rental housing to be available for tenants receiving tenant-based subsidies. That program also has proven itself to be productive, inexpensive, and very helpful to lower income families and lower income communities.

Certificates, vouchers and Rental Rehabilitation all work well because the rental subsidy is tenant-based and not "attached" to the units or buildings. The tenant has the ability to shop in the market to get full value for the public rent subsidy. If a new housing legislative strategy is to be successful in helping a large number of families with limited funds, the new strategy must also include a significant "building block" based on tenant-based rent subsidies.

The present combination of Section 8 certificates and vouchers combined with the Rental Rehabilitation Program would be a satisfactory "building block" to include in a new overall housing strategy. The certificate/voucher Rental Rehabilitation combination could, however, be improved by using a more flexible format giving greater management latitude to local officials.

This new "building block" is a formula allocation of funds to State and local governments. The funds could be used for either tenant-based rent subsidies or shallow production subsidies (primarily rehabilitation on the model of the present Rental Rehabilitation Program). Among the choices to be delegated to local officials would be the setting of local rent subsidy ceilings and the choice between the certificate approach of a ceiling rent set by a "fair market rent" or the voucher technique of a fixed "payment standard" with no limits on rent paid.

For the new "building block" to match or exceed the success of the present tenant-based rent subsidy programs and Rental Rehabilitation Program, the new "building block" must require by statute that any rent subsidy using this segment of Federal housing funds shall also be "tenant-based." If that is not done, the flexibility of the new program would lead to a diversion of funds to local housing production programs which use rent subsidies tied to housing units or buildings. Those "project-based" programs do not assist as many families per dollar of federal money as the tenant-based rent subsidies and Rental Rehabilitation.

To be fully effective, the new tenant-based rent subsidy "building block" should have a complete management plan thought through at the time the statutory framework is designed. That was done successfully with the Rental Rehabilitation Program and that model is available and suitable for the new "building block."

OVERVIEW

Senator Cranston's mandate is to set forth broad housing legislation addressing the full range of Federal involvement in housing. The following legislative recommendations address only a limited sector of the subject matter to be included in the new legislation. The recommendations are for only one of the many "building blocks" needed for a coherent overall Federal housing legislative strategy.

The primary focus of this recommendation is to emphasize the importance of continuing direct "tenant-based" rent subsidies as a primary method for funding new housing assistance for lower income tenants. "Tenant-based" rent subsidies refer to programs like Section 8 certificates and vouchers which permit the lower income recipient to shop in the market place to find the best available housing unit. Use of "tenant-based" rent subsidies also very much includes the Rental Rehabilitation Program which is a housing production subsidy which works with and in support of "tenant-based" rent subsidies.

The overwhelming reality facing any new housing effort is the problem of the Federal deficit and the resulting budgetary limitation on the national government. The expiration of old subsidies for assisted tenants adds even more demands to be met by limited resources. We must, therefore, use the most cost-effective tools and "tenant-based" subsidies (certificates, vouchers and Rental Rehabilitation) consistently show far and away the greatest result for each public dollar expended.

The most significant argument against reliance on "tenant-based" rent subsidies is that they do not meet the need for increased housing supply for tenants receiving assistance. The Rental Rehabilitation Program has proven that in most cases, it can meet the supply need of assisted tenants. Rental Rehabilitation subsidy costs for rehabilitation of $3,500 per unit are very, very low; program production is high and the targeted population is benefitting as intended by living in the rehabilitated units.

"Tenant-based" subsidies differ from "project-based" rent subsidies in which a tenant must live in the designated "project" to receive assistance. Examples of "project-based" subsidies are Public Housing and all of the low-income housing production programs except Rental Rehabilitation.

As a general observation, it can be claimed that there has been no "tenant-based" low income housing program in the history of the Department of Housing and Urban Development which is generally considered a failure. (Examples are the Housing Allowance Experiment, Section 23 Leasing, and certificates and vouchers.) Conversely, there has been no "project-based" low income housing program which is generally accepted to be cost-effective and successful! (If there were a successful "project-based" low income housing program model, we would not have to keep thinking up new ones.)

For a variety of reasons, some carefully constructed project-based production programs will continue to be needed; but, in the future as is the past, the most cost-effective benefit for lower income tenants will come from "tenant-based" programs.

RENTAL REHABILITATION AND SECTION 8 CERTIFICATES SHOULD BE CONTINUED - WITH IMPROVEMENTS

The Rental Rehabilitation Program and Section 8 certificates have certainly proved to be effective and should be continued. The programs can and should be improved, primarily by giving local governments more flexibility in setting rent levels, allocating funds between rehabilitation subsidies and rent subsidies and targeting assistance to special groups such as the elderly.

Outlined below is a specific legislative recommendation for a more flexible program as the next evolutionary stage for the "tenant-based" subsidy approach of Section 8 certificates and Rental Rehabilitation.

It must be stressed, however, that the fundamental element of "tenant-based" subsidies must be maintained in any replacement program. If that is not feasible, then the current Rental Rehabilitation Program and Section 8 Existing Housing Certificate Program should be continued as is!

NEW PROGRAM - TENANT ASSISTANCE AND RENTAL HOUSING REHABILITATION

Major problems to be addressed:

1. The Section 8 program is rigid and bureaucratic and thus less effective than it could be.

2. Some communities need less rehabilitation and more rent subsidies and the opposite is needed in other communities. Similarly, in some limited cases, new construction is more cost-effective than rehabilitation. Program rules are too restrictive to permit such local judgments.

Outline of the new program:

1. Fund distribution. A formula distribution should be made of funds to be used for both tenant subsidies and for rehabilitation of rental properties.

- each year's allocation should be used by the local or state government grantee over a seven year period - to fund rental subsidies, on the Section 8 "finders-keepers" certificate program model, for that number of years.

- the local government could, at its option, use up to 15 percent of each year's allocation for rehabilitation subsidies on the Rental Rehabilitation Program model.

2. "Fair Market Rent" levels. HUD would continue to prepare "Fair Market Rents" as it does at present. A local government or State grantee could continue to use those rents in the local program or could set higher or lower rates if appropriate in expending its fixed share of program funds.

The tough choice of aiding fewer families at higher rents or more families at lower rents would be made by local officials who best understand the realities and needs of the local market.

Rents set by local governments must be "community-wide" with tenants free to move to any unit within the jurisdiction affordable at that rent.

Grantees could follow, or modify, either the "certificate approach" of setting a maximum rent which can be paid by a tenant with a variable subsidy based on rent and income or the "voucher approach" of a fixed subsidy based on a "payment standard" and family income with no limit on how high or low the actual rent paid by the tenant.

3. Targeting to specialized needs. The legislation would continue to mandate that rental subsidies would only be used in units which meet minimum housing quality standards. In addition, Grantees could design specialized housing resources with tailored rent levels for specialized needs.

For example, a grantee could define a set of services appropriate for the frail and elderly to be made available by a provider in addition to and along with housing services. The Grantee would then decide on appropriate market rents for that package of services in its jurisdiction. Tenants with the specialized needs would receive the specialized rent subsidies which would be used to pay a local non-profit (or, for-profit) organization, providing the services. If more than one provider were available, the tenant (as with any "tenant-based" subsidy) would be permitted to shop among the providers.

4. Rehabilitation Subsidies. Rehabilitation subsidies would generally have to follow the rules of the Rental Rehabilitation Program, e.g., at least half of the construction cost to be financed by the developer with funds other than program funds and rehabilitation would be targeted to making market rate rental housing available to lower income tenants receiving tenant-based rent subsidies. Some specific program limitations of the Rental Rehabilitation Program such as per unit cost restrictions would not be needed or appropriate.

5. New Construction. The Rental Rehabilitation Program works well as a housing production program because it does not permit tying rental subsidies to "projects" or "units," not because the program is limited only to rehabilitation and excludes new construction.

With limited funds and "tenant-based" subsidies, rehabilitation will in most cases be more cost-effective than new construction and, given a choice, Grantees will tend to choose rehabilitation. Grantees should, however, be given that choice. There are some circumstances when new construction is more cost effective and Grantees should not be forced to rehabilitate buildings which should better be torn down and replaced.

CONCLUSION

A Formula distribution of funds for rental subsidies and rehabilitation of rental units could give greater flexibility and efficiency to the already successful programs of "tenant-based" rental subsidies and the related Rental Rehabilitation Program.

The success of the present programs can be continued by assuring that the rent subsidy element remains "tenant-based." That means that any time the program calls for a tenant to be able to have housing services for less than the free market value of those services, the tenant can shop in the market to get the best possible benefit from the public subsidy which is lowering the cost to the tenant.

As part of that approach, property owners are never guaranteed above market rents or protected from having to provide competitive services to maintain their income.

The "tenant-based" subsidy is implemented through rules similar to those of Rental Rehabilitation and Section 8 certificates which prohibit tying a certificate to a unit and prohibit the public sector setting of rents for rehabilitated units.

If a successor program does not incorporate strict rules continuing the "tenant-based" rent subsidy, it would be good public policy to continue the Rental Rehabilitation Program and Section 8 certificate programs without major change rather than adopt a new program which changes that crucial element.

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October 4, 1987

The Honorable Senator Alan Cranston
Chairman
Subcommittee on Housing and
Urban Affairs
Senate Committee on Banking, Housing and
Urban Affairs
Dirksen Senate Office Building SD535
Washington, D.C.

Dear Senator Cranston:

You and your Subcommittee on Housing and Urban Affairs are to be commended for the comprehensive review of Federal housing policies and programs which you are undertaking. I appreciate the opportunity to share my views with you.

I am currently a partner in a real estate appraisal firm based in McLean, Virginia. Between 1979-1985, I was the Deputy Director of the Office of Urban Rehabilitation in the Department of Housing and Urban Development in Washington. During my service with HUD, I designed and implemented a national technical assistance effort supporting city-run property rehabilitation programs, helped draft and implement the legislation for the Rental Rehabilitation Program, and managed the Section 312 Rehabilitation Loan Program. Prior to my service in HUD I worked in local government rehabilitation programs in New Jersey, New York and Connecticut and was a tenant organizer in New York City.

I have the following recommendations for new policy and program initiatives:

- A flexible Housing Block Grant Program (HBG), to be implemented by local and state governments, should become the main component of HUD's housing subsidy efforts. Similar to the successful Community Development Block Grant (CDBG) Program, the HBG should have national standards for program eligibility and benefit but leave specific program design up to local and state agencies receiving annual formula allocations of Federal funds.

- The Departments of HUD and HSS should be instructed to coordinate the billions of dollars each agency spends on housing for lower income tenants. Congress should fund local and state demonstration efforts which link housing and welfare agencies and funding: previous demonstration legislation was never funded due to Reagan Administration opposition. In addition, HUD and HSS should be required to undertake a comprehensive joint review of all of their programs to identify duplicative funding, low income housing needs which are not being met by either agency, and opportunities for improved coordination. Funding should provided for outside consultants and the two departments should be required to report their findings to Congress within a year.

Following are more detailed comments on my two recommendations:

Housing Block Grant (HBG) Program

There are many ways to structure an HBG and I will discuss several alternatives below. However, the major point of my recommendation is that it is time to end a 20+ year effort to design Federal housing programs providing subsidies to private developers at the national level and then implement them through HUD's regional and area office structure. None of the "core" Federal subsidy initiatives of this period- including the Section 223D(3), Section 236, and Section 8 New Construction and Substantial Rehabilitation Programs- reached their tenth anniversaries before major flaws became apparent and they were replaced with a new program. For example, many Section 236 projects went into default in the early seventies because the program was too rigid to handle unanticipated increases in operating costs.

The successor Section 8 development programs solved the operating cost problems, but became so expensive that they were under strong attack during the last years of the Carter Administration. When the Reagan Administration set out to kill these programs after 1981, there was little effective opposition.

All of the Federal housing development subsidy programs were designed at the national level and then implemented through the HUD structure. It is significant to note that the Federal housing programs with real longevity, i.e. public housing and the unsubsidized FHA insurance programs, were designed nationally but implemented through networks of local housing authorities and private sector mortgage brokers and lenders. Of course, these efforts are now more than 50 years old.

The history of the Community Development Block Grant Program (CDBG) contrasts markedly with the "revolving door" of the national housing subsidy programs. The CDBG, which has never made an attempt to dictate detailed program design standards, is now in its 14th year of operation. Although there have been numerous legislative changes regarding program eligibility, funding formulas, and low income benefit, the basic structure has remained intact since its initial enactment. I am convinced that the CDBG has outlived all of the housing development subsidy efforts primarily because it has never had rigid national program guidelines or been directly administered by HUD. I believe this country is too large and diverse to fit one program design and a Federal agency , no matter how well staffed, cannot effectly administer hundreds of local programs or development efforts.

The effort to implement nationally designed subsidy programs has also resulted in initiatives which have have been enormously complex and expensive. HUD always recognized the difficulty of having a Federal agency ensure that subsidy funds are properly used. Agency officials usually had limited direct involvement in the markets in which development was to take place. Furthermore, control of impact and expenditures was particularly difficult in programs whose income occupancy and rent rules had little relationship with the dynamics of the private market.

The housing subsidy programs were probably inherently uncontrollable by a Federal agency, but HUD certainly tried to do its job. Each of the initiatives have been heavily laden with massive paperwork requirements, building standards which are invariably higher than local rules, and income occupancy and rent limitations which require frequent oversight. Not surprisingly, these controls resulted in lengthy processing delays and resultant cost increases. Developers "charged" HUD heavily for the hassles they were put through. I will always remember a visit I made to two residential rehabilitation projects in Stamford, Connecticut about 4 years ago. One building, financed with CDBG or Section 312 loan funds administered by the City, had rents of $335/month. The other property, located two blocks away and with similar sized apartments, was rehabilitated through the Section 8 Program administered by HUD. It had rents of about $850/month!

State housing finance agencies have a long history of effectively designing and implementing housing development programs. Local government involvement is more recent, but recent experience shows that localities are ready to play a central role in delivering housing services. Over the past three years more than 80,000 housing units have been rehabilitated, primarily under local government direction, using funds from the Rental Rehabilitation Program (RRP). The RRP is limited to moderate rehabilitation and has a number of national rules. However, since it permits a great deal of local design flexibility and gives HUD no role in approving individual projects, it represents a significant step towards the HBG I am proposing.

I recognize that many housing professionals remain opposed to the idea of a block grant. For example, numerous liberals in Congress and elsewhere still believe that complete national rule making is necessary to ensure that Federal funds will have adequate low income benefit. Their mistrust of state and local governments is not justified. The state financing agencies have a proud tradition of developing low income housing. Localities administering the Rental Rehabilitation Program have chosen projects with nearly 90% low income occupancy.

I suspect that the most serious opposition to a HBG would come from the development community. There is now a relatively large group of developer/builders skilled in dealing with HUD and using the Federal subsidy programs. These entrepreneurs are understandably reluctant to have to do business with a variety of local and state governments, particularly on projects which will still require HUD approval for FHA insurance. However, I think it is time for the HUD "specialists" to rejoin the general development community and work on projects on an individual local market basis. In a period of severe budgetary constraints, I believe that we can no longer afford the major design and cost inefficiences of nationally designed and HUD administered housing subsidy programs.

The first issue to be resolved in the design of a HBG would be the scope of the new program. I see three major options:

- Consolidation of all current HUD housing programs except for unsubsidized FHA insurance. Under this option, state and local governments would be responsible for all aspects of public housing, including both new construction and modernization, and design their own rental assistance programs.

- HUD maintains separate funding for public housing, with all other programs consolidated into the HBG.

- HUD continues to operate public housing and the Section 8 certificate/voucher rental assistance program. Programs to be incorporated into the HBG would include Rental Rehabilitation, the Housing Development Grant (HODAG) Program, and the Section 202 Program for senior citizen housing.

In order to implement the first two options, state and local governments would have to be provided with annual grants of multi-year funding. It is impossible to operate either a public housing construction or rental assistance program without the ability to make advance commitments of funds to be available in subsequent years. The multi-year feature would also be useful for the third option. I recommend that HBG budget authority be limited to a period of 10-20 years, depending on which programs are consolidated into the program. It is important to note that even if longer-term budget authority is provided, I expect that most local/state grantees would utilize significant portions of their funding for one-time up front subsidy grants. Capital grants are easy to administer and cost efficient- they utilize available funds before their impact has been reduced by inflation- but they have never been a feature of the HUD subsidy programs.

I believe that the initial HBG should not include public housing, but should have sufficient budget authority to allow grantees to operate rental assistance programs. Although the Section 8 rental assistance certificate/voucher program continues to operate with reasonable success, there are numerous problems due to its national design. Several states already are operating effective rental assistance efforts. It might be a good idea to phase in this aspect of the HBG, initially dividing funds available for rental assistance between a continuing HUD Section 8 program and the new block grant.

Several years ago I participated in an unofficial effort at HUD to draft legislation for a HBG. I have updated the material we developed at that time and have included it as part of these recommendations. Note that the proposed limits on outlays are designed to ensure that some of the HBG funds will be utilized for rental assistance, rather than to be used entirely for up front capital grants.

Coordination of HUD-HSS Programs

This recommendation requires only limited comment. I am sure your Subcommittee is aware that HSS now spends almost as much on low income housing as HUD. Unfortunately, the HSS programs are not well targeted to stimulate improved housing for welfare recipients. Furthermore, there has never been a comprehensive effort to coordinate the impact of the HUD and HSS programs on low income housing. Several years ago Congress approved a demonstration program designed to stimulate better coordination of HUD-HSS programs at the local level, but it was never funded. Approximately ten years ago then HEW Secretary Califano proposed that HUD's rental assistance programs be integrated into the welfare system. However, the Secretary's initiative got caught in a turf battle between HUD and HEW and was soon dropped.

My recommendations are that the previously approved demonstration program be re-enacted and funded as soon as possible and that Congress establish its mandate for the proposed joint HUD-HSS review in a manner which does not permit this effort to disintegrate into new turf battles. If the two agencies cannot work together, it may be necessary to establish an outside commission to undertake the review.

Once again, I appreciate the opportunity to address these remarks to you. I would be happy to testify on these issues as well as work with your staff on further development of the ideas in this paper.

Sincerely,

Michael M. Ehrmann

Michael M. Ehrmann

Housing Block Grant

Section 118(a)(1). In order to promote the development of viable urban communities and,specifically, to provide improved housing resources and housing assistance to citizens in designated localities, of the total amount of authority approved in appropriation acts under section 103(c), the Secretary shall make housing block grants to units of local government participating in the community development program authorized by this title and to state governments.

(a) Grants made under this section may be used for all activities eligible under Title II, Assisted Housing, of the Housing and Community Development Act of 1974 and other housing related activities approved by the Secretary, subject to conditions incorporated in subsequent paragraphs.

(b) Total funds available for the housing block grant program shall be divided among designated juristictions on a fair share basis. Block grants shall be provided in an annual grant which shall remain available for the grant year and fourteen subsequent Fiscal Years, with the following limits on annual outlays:

(1) Jurisdictions may not expend cumulatively more than the following amounts of an annual block grant by the end of the grant year and each succeeding year:

first year of the grant - fifty (50) percent
second year - sixty (60) percent
third year - seventy (70) percent

(f) In order to minimize displacement and ease relocation burdens, the Secretary shall by regulation establish appropriate rules governing relocation resulting directly from local housing block grant activities.

Localities and states eligible for funding under this section shall submit applications including the following elements:

(1) identification and primary descriptions and costs of proposed activities and, if applicable, program area(s), including certification that the program will meet the requirements of subsections d-h above;
(2) an administrative plan, including staffing, funding and responsibilities, for management of the housing block grant program; and
(3) description of an ongoing citizen participation process which is consistent with the provisions of subsection (g) below.

(g) prior to submitting annual applications for housing block grant funds, each participating jurisdiction shall provide interested individuals an opportunity to comment on the proposed effort.

(h) At least on an annual basis, the Secretary shall make reviews and audits of recipients of funding pursuant to this section as neccessary to determine the progress made in

fourth year - seventy-five (75) percent
fifth year - eighty (80) percent
sixth year - eighty-five (85) percent
seventh year - ninety (90) percent
eighth year - one hundred (100) percent

(c) Funding provided under this section shall not result in modifications in the public housing development and operating subsidy funds to be assigned to the jurisdiction for the Fiscal Years and shall not affect the amount of federal single and multifamily insurance authority available during the same period and shall not affect the resourcesto be made available by the Secretary within the jurisdiction to aid projects previously assisted by the Secretary.

(d) At least 85 percent of all units rehabilitated or constructed with assistance of housing block grant funds shall, upon completion of construction or rehabilitation, be available and affordable to low and moderate income persons receiving rental or homeownership assistance under the program. Rental assistance payments supported through housing block grants shall only be provided to low and moderate income individuals and families as defined by the participating locality.

(e) Localities' use of housing block grant funds shall be consistent with community development programs and housing assistance plans required by this title.

carrying out activities substantially in accordance in program regulations, local objectives, and sound and efficient management practices. The Secretary shall adjust, reduce, or withdraw current or future housing funds, or take other action as appropriate in accordance with the findings of such review and audits, except that funds already expended on eligible activities under this title shall not be recaptured or deducted from future allocations to the recipient. Funds withdrawn from participating localities for poor performance may be added to the grants of localities determined to have better performance with such waivers or modification of the outlay restrictions of (c) above with respect to the use of such additional grants as the Secretary deems appropriate.

(l) Of the funds available for carrying out the housing block grants authorized by this section, the secretary may, through grants, contracts, and other financial arrangements, in an amount not to exceed five percent of the funds appropriated, provide technical assistance to local governments and others as appropriate to the achievement of the objectives of this section. Funds for technical assistance shall be deducted from the total appropriation before allocations to individual localities and states are computed.